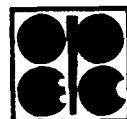


**SELECTED DOCUMENTS  
OF THE  
INTERNATIONAL PETROLEUM INDUSTRY  
1971**



**O P E C**

**ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES**

**Vienna**

Published by  
The Information Department  
of  
**THE ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES**  
Vienna I, Dr. Karl Lueger-Ring 10  
January, 1973  
printed by Erwin Metten, Vienna

# Selected Documents of the International Petroleum Industry

## 1971

### TABLE OF CONTENTS

	Page
<b>CHAPTER I      ABU DHABI</b>	
Law No. 7 for 1971 establishing the Abu Dhabi National Oil Company . . . . .	7
Amiri Decree No. 52 of 1971 appointing Members to the Board of Administration of the National Oil Company . . . . .	12
Abu Dhabi — A.D.M.A. Agreement . . . . .	13
Abu Dhabi — A.D.P.C. Agreement . . . . .	17
<b>CHAPTER II     ALGERIA</b>	
A Collection of Algerian Legislation passed in 1971 . . . . .	21
<b>CHAPTER III    IRAN</b>	
Joint Structure Agreement between the National Iranian Oil Company and Amerada Hess Corporation . . . . .	55
Joint Structure Agreement between the National Iranian Oil Company and Mobil Oil Corporation . . . . .	87
Joint Structure Agreement between the National Iranian Oil Company and Teijin Limited, North Sumatra Oil Development Cooperation Co., Ltd., Mitsui & Co., Ltd., Mitsubishi Shoji Kaisha Ltd., and Mobil Oil Corporation . . . . .	120

	Page
<b>CHAPTER IV IRAQ</b>	
Law No. 33 of 1971: Ratification of Agreement between the Iraq Government and the Oil Companies operating in Iraq . . . . .	157
Law No. 76 of 1971, amending Law No. 123 of 1967 establishing the Iraq National Oil Company . . . . .	159
Law No. 89 of 1971: Ratification of the East Mediterranean Agreement between the Iraq Government and the Oil Companies operating in Iraq . . . . .	161
Law No. 106 of 1971: First Amendment to Law No. 229 for 1970 — Conservation of Petroleum Resources and Hydrocarbon Materials . . . . .	164
Law No. 149 of 1971: Fourth Amendment to Law No. 123 of 1967 establishing the Iraq National Oil Company . . . . .	165
Law No. 160 of 1971 ratifying Cooperation Agreement with Romania . . . . .	168
Agreement on Scientific and Technical Cooperation between the Government of the Republic of Iraq and the Hungarian People's Republic . . . . .	176
<b>CHAPTER V LIBYA</b>	
Law No. 30 for 1971 amending Certain Provisions of the Petroleum Law No. 25 for 1955 . . . . .	179
Law No. 31 for 1971 amending Some of the Provisions of Law No. 24 of 1970 regarding the Libyan National Oil Corporation . . . . .	180
Law No. 32 for 1971 amending Certain Provisions of the Petroleum Law No. 25 for 1955 . . . . .	181
Text of Libyan Law Nationalizing British Petroleum's Interests in Concession 65 . . . . .	183
<b>CHAPTER VI NIGERIA</b>	
Off-Shore Oil Revenues Decree 1971 . . . . .	189
Nigerian National Oil Corporation Decree No. 18 for 1971 . . . . .	190
Revenue Renegotiation Agreement . . . . .	195
Oil Prospecting Licence No. 90 granted to Occidental Petroleum of Nigeria . . . . .	203

	Page
<b>CHAPTER VII QATAR</b>	
Agreement for the Use of Associated Gas . . . . .	219
Qatar-Shell Agreement for the Amortisation of Exploration Expenditure and Drilling Expenditure . . . . .	226
<b>CHAPTER VIII VENEZUELA</b>	
Decree No. 509 of 6 January 1971 Fixing Rules Governing Establishment of Minimum Export Values of Hydrocarbons and their Derivatives . . . . .	231
Joint Resolution Nos. 643 and 408 of the Ministries of Finance and of Mines and Hydrocarbons Establishing Minimum Export Values . . . . .	233
Joint Resolution Nos. 1021 and 798 of 5 May 1971 of the Ministries of Finance and of Mines and Hydrocarbons Establishing Freight Complement . . . . .	240
Law on the Property or Assets subject to Reversion in the Hydrocarbon Concessions . . . . .	241
Decree No. 666 of 4 August 1971: Partial Regulation of the Law of Hydrocarbons relative to the Payment of the Fiscal Obligations derived from Service Contracts . . . . .	248
Joint Resolution Nos. 1171 and 1346 of 11 August 1971 of Ministries of Finance and of Mines and Hydrocarbons Establishing Freight Complement . . . . .	250
Law to Reserve for the State the Natural Gas Industry . . . . .	251
Joint Resolution Nos. 1219 and 1594 dated 17 September 1971 of the Ministries of Finance and of Mines and Hydro- carbons, Establishing Minimum Export Values . . . . .	255
Joint Resolution Nos. 1833 and 1248 of 26 October 1971 of the Ministries of Finance and of Mines and Hydrocarbons Establishing Freight Complement . . . . .	256
Accord of the Senate of the Republic Authorizing the National Executive to Transfer Rights to CVP . . . . .	256
Decree No. 832 of 17 December 1971 . . . . .	259
Joint Resolution Nos. 1307 and 2342 of the Ministries of Finance and of Mines and Hydrocarbons Establishing Minimum Export Values . . . . .	261

	Page
<b>CHAPTER VIII VENEZUELA (continued)</b>	
Service Contracts and Accounting Guide — Blocks A, D and E	270
Service Contract, Block B . . . . .	326
Service Contract, Block C . . . . .	358
<b>CHAPTER IX OPEC AGREEMENTS</b>	
Tehran Price Agreement . . . . .	391

## **CHAPTER I**

### **Abu Dhabi**

#### **LAW No. 7 FOR 1971 ESTABLISHING THE ABU DHABI NATIONAL OIL COMPANY**

**In the Name of God the Compassionate the Merciful**

**We, Zaid Bin Sultan Al Neheyyan, Ruler of Abu Dhabi, in view of the proposal submitted by the Minister of Petroleum & Industry and of its approval by the Council of Ministers, order the enactment of the following Law:**

#### **ARTICLE 1**

**A Company, to be known as the Abu Dhabi National Oil Company, shall be established in accordance with this Law. The Company shall have legal status and shall be fully authorized to operate.**

#### **ARTICLE 2**

**The Company shall have its headquarters in Abu Dhabi City. It may establish branches or offices or agencies in Abu Dhabi or abroad.**

#### **ARTICLE 3**

**The Company shall deal in Abu Dhabi or abroad in any stage or stages of the Petroleum Industry including**

- exploration and drilling for Petroleum, Natural Gas and for other Hydrocarbons,**
- Production, refining, transportation and storage of the abovementioned products or of any of their derivatives,**
- trading in and distribution, sale, and exportation of the abovementioned products and their derivatives.**

#### ARTICLE 4

The Company may, for the achievement of its objectives,

1. establish companies independently or in association with others or participate in companies already in existence,
2. enter into contract in any manner with companies or establishments engaged in activities related to its objectives. The Company may purchase such companies or establishments or attach them to itself.
3. Engage in all lawful activities which the proper discharge of its work necessitates.

#### ARTICLE 5

- 1 The capital of the Company shall be (20,000,000) Twenty Million Bahraini Dinars. It shall be paid by the Government as and when required and at the request of its Board of Administration.
2. The Government may provide the whole or part of the Company's capital in plant or facilities having values equal to the payments involved.

#### ARTICLE 6

The liability of the Company shall be limited to the amount of its capital.

#### ARTICLE 7

1. The Company may, for the financing of its projects, obtain loans from any quarter in or outside Abu Dhabi.
2. The Company shall obtain loans against the issue of Internal Bonds guaranteed by the Ministry of Finance. The Council of Ministers shall set down the conditions and details governing the issue of such bonds.
3. The total of the debts of the company should at no time exceed the threefold of its capital.

#### ARTICLE 8

Until such time as a Central Bank has been established in Abu Dhabi, the Company shall deposit its funds with the National Bank of Abu Dhabi. The Company may also deal with other banks in and outside Abu Dhabi.

#### ARTICLE 9

1. The Company shall pay the Government (55 %) Fifty-five percent of its annual profit.
2. The Company shall be exempt from all taxes and fees relating to its activities as covered by this Law.

*Abu Dhabi*

**ARTICLE 10**

1. The Company shall be administered by a seven man Board of Administration, including the Chairman and his Deputy, as shown below:
  - (a) The Minister of Petroleum and Industry shall be the Chairman of the Board.
  - (b) The six Board Members, including the Director General, shall be appointed by the Council of Ministers and by an Amiri Decree.
2. Membership in the Board of Administration shall be for a period of three years which may be renewed or extended.
3. The Board shall elect from its members a deputy to deputize for the Chairman during the latter's absence.
4. The remuneration of the Board Members shall be fixed by the Council of Ministers.

**ARTICLE 11**

1. The Board of Administration shall, on the invitation of its Chairman, meet once a month at least. It shall also meet whenever asked to do so by at least three of its members.
2. A quorum shall have been established whenever the number of members present at a meeting, including the Chairman or his Deputy, is found to constitute an absolute majority.

**ARTICLE 12**

The decisions of the Board shall be taken on the basis of majority of the Members present. In cases of a tie the Chairman's vote shall decide the issue.

**ARTICLE 13**

The Minutes of the meetings of the Board of Administration shall be recorded in a special register and shall be signed by the Chairman and the Members present at the meeting. A dissenting Member shall have the right to ask for his views to be recorded.

**ARTICLE 14**

With the exception of decisions concerning the undermentioned subjects, which shall require the approval of the Council of Ministers, all other decisions of the Company's Board of Administration shall be valid and effective from the dates of issue:

1. Involvement of the Company in exploration and drilling for petroleum and natural gas.
2. Establishment of companies on its own, or in association with others or participation in existing companies.

*Selected Documents — 1971*

**ARTICLE 15**

The Council of Ministers shall appoint a Director General for the company and shall fix his salary and lay down the terms of his employment.

**ARTICLE 16**

The Director General shall represent the Company at Court. He shall therefore be responsible for the execution of the decisions taken by the Board of Administration.

**ARTICLE 17**

The Chairman of the Board of Administration and the Director General shall each have the right to sign on behalf of the Company. The Board of Administration may nevertheless empower one of its members to also sign on behalf of the company.

**ARTICLE 18**

Neither the Chairman of the Board of Administration nor any of its members may have any direct or indirect interest in the contracts or projects that the Company may enter into or execute.

**ARTICLE 19**

The Company shall follow the general petroleum policy of the State as represented by the Minister of Petroleum & Industry and, in the event of a dispute arising between the Minister and the Company, the matter shall be referred to the Council of Ministers.

**ARTICLE 20**

The Company's Financial Years shall commence on the 1st of January and shall end on the 31st of December of each calendar year.

**ARTICLE 21**

1. The Company shall prepare its annual budget and shall submit it to the Council of Ministers for approval.
2. In the event of delay in the approval of the Company's budget and should the new financial year have meanwhile commenced, the previous year's budget shall be applied at the rate of one twelfth of the total for each month.

*Abu Dhabi*

## **ARTICLE 22**

The Company's capital may not be increased or decreased except on the recommendation of the Company's Board of Administration and with the approval of the Council of Ministers.

## **ARTICLE 23**

1. The Company shall have an Auditor who shall be appointed by its Board of Administration.
2. Copies of the Auditors Reports shall be submitted to each of the Secretariat General of the Council of Ministers, the Ministry of Finance and the Ministry of Petroleum & Industry.

## **ARTICLE 24**

Within three months of the end of the Financial Year the Board of Administration shall prepare and submit to the Council of Ministers, with copies to the Ministry of Finance and to the Ministry of Petroleum & Industry, a report covering the Company's Budget, its financial position, its profits and loss account together with a statement of its assets and liabilities.

## **ARTICLE 25**

The duration of the existence of the Company shall not be limited.

## **ARTICLE 26**

The Company may not be disbanded or liquidated except by means of a Law.

## **ARTICLE 27**

The Company shall be administered by means of financial or administrative regulations issued by the Board of Administration.

## **ARTICLE 28**

The Company may, with a view to facilitating the application of this Law, issue regulations or instructions.

## **ARTICLE 29**

This Law shall come into effect on the date of its enactment and it shall be published in the Government Gazette.

*Selected Documents — 1971*

**ARTICLE 30**

All Ministers shall be responsible for putting this Law into effect.

Sgd.

Zaid Bin Sultan Al-Neheyyan  
Ruler of Abu Dhabi

Sgd.

Khalifa Bin Zaid Al-Neheyyan  
Crown Prince & Prime Minister

Abu Dhabi

10/10/1391 (Al-Hijrah)  
27/11/1971 (Gregorian)

**AMIRI DECREE No. 52 of 1971**

In the Name of God the Compassionate the Merciful

We, Zaid Bin Sultan Al-Neheyyan, Ruler of Abu Dhabi, considering Article 11 of Law No. 7 of 1971 relating to the establishment of the National Oil Company and in view of the recommendation submitted by the Minister of Petroleum & Industry and approved by the Council of Ministers do hereby order:

**ARTICLE 1**

The appointment of the undermentioned gentlemen to the Board of Administration of the National Oil Company:

- |                              |                                                   |
|------------------------------|---------------------------------------------------|
| 1. Sayid Mana Al-Otaiba      | — Minister of Petroleum & Industry, Chairman      |
| 2. Sayid Ahmad Al Suweidy    | — Minister of Cabinet Affairs, Member             |
| 3. Sayid Mohamad Al Kindi    | — Minister of Education, Member                   |
| 4. Sayid Mohamed Habroush    | — Minister of State for Financial Affairs, Member |
| 5. Sayid Mahmoud Hassan Juma | — Planning Adviser, Member                        |
| 6. Sayid Hassan Abbas Zaki   | — Economic Adviser, Member                        |
| 7. Sayid Abdulla Ismail      | — Deputy Minister of Petroleum & Industry, Member |

*Abu Dhabi*

## ARTICLE 2

This Decree shall be put into effect from its date of enactment and it shall be published in the Government Gazette.

Sgd.

Zaid Bin Sultan Al-Neheyyan  
Ruler of Abu Dhabi

Sgd.

Khalifa Bin Zaid Al-Neheyyan  
Crown Prince & Prime Minister  
& Minister of Defence & Finance

Sgd.

Manal Saeed Al-Otaiba  
Minister of Petroleum & Industry

Abu Dhabi

10/10/1391 (Al-Hijrah)  
27/11/1971 (Gregorian)

## ABU DHABI — ADMA AGREEMENT

*The following agreement was concluded between His Highness the Ruler of Abu Dhabi and Abu Dhabi Marine Areas Limited (ADMA) on February 5, 1971. It is followed by the Abu Dhabi Income Tax (Amendment) Decree, 1971.*

This Agreement is made the 5th day of February 1971 corresponding to the 9th day of Thu Al Hija 1390 between His Highness Sheikh Zayid bin Sultan al Nahaiyan, Ruler of Abu Dhabi, representing the Government of the State of Abu Dhabi (hereinafter called "the Ruler") of the one part and ABU DHABI MARINE AREAS LIMITED (hereinafter called "the Company") represented by \_\_\_\_\_ of the other part.

NOW IT IS HEREBY AGREED AS FOLLOWS:

## ARTICLE 1

In this Agreement:

1. "the Supplemental Agreement" means the Agreement dated the 10th day of November 1966 and made between the Ruler and the Company.

2. Any expression used in this Agreement to which a specific meaning has been assigned in the above mentioned Agreement shall have the same meaning unless the context otherwise requires, or unless a specific meaning has been given to it herein.
3. "the Amortisation Agreement" means the Agreement dated the 1st day of June 1970 and made between the Ruler and the Company.
4. "The Abu Dhabi Income Tax Decree" means the Abu Dhabi Income Tax Decree 1965 as amended by the Abu Dhabi Income Tax (Amendment) Decree 1966 and by the Abu Dhabi Income Tax (Amendment) Decree 1970 and by the Abu Dhabi Income Tax (Amendment) Decree 1970 No. 2.
5. "Effective Date" means the 14th day of November 1970.

## ARTICLE 2

With effect from the Effective Date the Supplemental Agreement shall be amended by:

1. adding to paragraph 1 of Article III thereof the words and figures "up to and including 13th November 1970 and an amount equal to 55 percent of the Profit arising in Abu Dhabi on Exported Oil and on other Substances produced under the Amended Agreement in Abu Dhabi and exported therefrom on and after 14th November 1970";
2. substituting in sub-paragraph (iv) of paragraph 3 of Article III thereof for the words and figures "50 percent of the Profit in respect of that year" the words and figures "the amount receivable by the Ruler in respect of that year pursuant to paragraph 1 of this Article";
3. substituting for sub-paragraph (i) of paragraph (a) of Article XV thereof the following:  
"an amount equal to 50 percent or 55 percent (as required by paragraph 1 of Article III of this Agreement) of the Profit as defined in paragraph 2 of the said Article III";
4. deleting sub-paragraphs (ii) and (iv) of paragraph (c) of Article XV thereof and re-numbering sub-paragraph (iii) of the said paragraph (c) as sub-paragraph (ii);
5. substituting in paragraph (7) of Schedule 2 thereof for the words and figures "50 % of the Profit" the words and figures "the amount receivable by the Ruler pursuant to paragraph 1 of Article III hereof" in both places where the former occur.

## ARTICLE 3

The Ruler intends that he will amend the Abu Dhabi Income Tax Decree in the manner set out in the Schedule hereto.

*Abu Dhabi*

ARTICLE 4

1. The additional revenues receivable by the Ruler as a result of the amendment contained in Article 2 hereof shall be accepted by the Ruler as a fair appropriate and final settlement of all claims by the Ruler against the Company relating to the amount receivable by the Ruler pursuant to paragraph 1 of Article III, as amended, of the Supplemental Agreement in respect of any period prior to the Effective Date. Such settlement is without prejudice to the ascertainment of the cost of operations for the period commencing 1st January 1970 which remain to be ascertained in accordance with the provisions of Schedule 1 of the Supplemental Agreement.
2. The Ruler expressly recognises that BP's Trading Affiliate and C.F.P.'s Trading Affiliate have, in preparing their income tax returns under the Abu Dhabi Income Tax Decree (which they submitted through the Company as their agent) in respect of all taxable years before the Effective Date, used the proper basis for determining their respective net incomes and their respective income tax liabilities.

ARTICLE 5

1. This Agreement shall take effect as supplemental to the Supplemental Agreement.
2. References to the Supplemental Agreement in the Abu Dhabi Amortisation Agreement shall from the Effective Date be read and construed as references to the Supplemental Agreement as amended by this Agreement.
3. References to the Abu Dhabi Income Tax Decree in the Supplemental Agreement and the Abu Dhabi Amortisation Agreement shall from the Effective Date be read and construed as references to that Decree as amended by the provisions contained in the Schedule hereto.
4. Subject to the provisions of this Agreement all the before mentioned Agreements shall remain in full force and effect.

ARTICLE 6

This Agreement has been drawn up in the Arabic and English languages, but in the event of any discrepancy between the meanings of the English and Arabic texts hereof, the English text shall prevail.

ARTICLE 7

This Agreement shall have the force of law and shall come into force as soon as both of the following events have occurred:

1. This Agreement has been executed by the parties hereto.
2. The amendment to the Abu Dhabi Income Tax Decree set out in the Schedule hereto has been enacted as part of the law of Abu Dhabi.

*Selected Documents — 1971*

IN WITNESS WHEREOF the parties have signed this Agreement on the day and year specified above, AND RELIANCE IS ON ALLAH.

His Highness the Ruler of Abu Dhabi

For and on behalf of Abu Dhabi Marine Areas Limited

In the presence of

In the presence of

THE SCHEDULE ABOVE REFERRED TO

(Agreed Translation)

IN THE NAME OF ALLAH THE COMPASSIONATE

THE MERCIFUL

EMIRI DECREE NO. ( )

We, Zayid Bin Sultan Al Nahaiyan, Ruler of Abu Dhabi, in the public interest, order the enactment of the following decree:

**ARTICLE 1**

This Decree may be cited as the Abu Dhabi Income Tax (Amendment) Decree, 1971 and shall be read and construed as one with the Abu Dhabi Income Tax Decree 1965 which [as amended by the Abu Dhabi Income Tax (Amendment) Decree 1966, the Abu Dhabi Income Tax (Amendment) Decree 1970 No. 1 and the Abu Dhabi Income Tax (Amendment) Decree 1970 No. 2] is hereafter referred to as the Principal Decree.

**ARTICLE 2**

This Decree shall come into force on the first day of January 1970 and Income Tax in respect of any financial year ending after that date shall be paid in accordance with the provisions of the Principal Decree as amended by this Decree.

**ARTICLE 3**

The Principal Decree is hereby amended as follows:

- (a) By inserting after the words "by an amount equal to 50 % of the income of that producing company for such income tax year derived from such oil dealt in" in paragraph (19) of Article 2 the following words in brackets:

*Abu Dhabi*

"(but by an amount equal to 55 % of so much of the income of that producing company as is derived from dealing in oil exported from the Sheikhdom on and after 14th November 1970)"

- (b) By inserting after the words "at the rate of 50 %" in paragraph (2) of Article 4 the following words in brackets:

"(but in respect of so much of its taxable income as is derived from dealing in oil exported from the Sheikhdom on and after 14th November 1970 the rate shall be 55 %)"

Zayid Bin Sultan Al Nahaiyan  
Ruler of Abu Dhabi

Promulgated in Abu Dhabi by us this day  
this day of 1971.

of 1391 Hijra, corresponding to

**ABU DHABI—ADPC AGREEMENT**

*The following agreement was concluded between His Highness the Ruler of Abu Dhabi and Abu Dhabi Petroleum Company (ADPC) on February 5, 1971. It is followed by the Abu Dhabi Income Tax (Amendment) Decree, 1971.*

THIS AGREEMENT is made the ninth day of Thu Al Hija 1390 H, corresponding to the fifth day of February 1971 BETWEEN HIS HIGHNESS SHEIKH ZAYID BIN SULTAN AL NAHAIYAN, Ruler of Abu Dhabi, representing the Government of the State of Abu Dhabi (hereinafter called "the Ruler") of the one part and ABU DHABI PETROLEUM COMPANY LIMITED (hereinafter called "the Company") represented by Alan Turner of the other part.

**NOW IT IS HEREBY AGREED AS FOLLOWS:**

**ARTICLE 1**

In this Agreement:

1. "the 1965 Agreement" means the Agreement dated the 19th day of September 1965 and made between the Ruler and the Company.

*Selected Documents — 1971*

2. "the Abu Dhabi Supplemental Agreement" means the Agreement dated the 10th day of November 1966 and made between the Ruler and the Company.
3. "the Abu Dhabi Amortisation Agreement" means the Agreement dated the 1st day of June 1970 and made between the Ruler and the Company.
4. "the Abu Dhabi Income Tax Decree" means the Abu Dhabi Income Tax Decree 1965 as amended by the Abu Dhabi Income Tax (Amendment) Decree 1966 by the Abu Dhabi Income Tax (Amendment) Decree 1970 and by the Abu Dhabi Income Tax (Amendment) Decree 1970 No. 2.
5. Any expression used in this Agreement to which a specific meaning has been assigned in any of the abovementioned Agreements shall have the same meaning unless the context otherwise requires.
6. "Effective Date" means the 14th day of November 1970.

**ARTICLE 2**

With effect from the Effective Date:

1. Paragraph (1) of Article 2 of the 1965 Agreement shall be amended as follows:
  - (i) the first sentence of paragraph (1) shall be re-numbered as sub-paragraph (1) (a);
  - (ii) at the end of that sentence the following words shall be added "up to and including the 13th day of November 1970 and an amount equal to fifty-five per centum of the profit arising in Abu Dhabi on Exported Oil and on other Substances produced by the Company in the Concessional Area and exported therefrom on and after the 14th day of November 1970";
  - (iii) the second sentence of paragraph (1) shall be re-numbered as sub-paragraph (1) (b).
2. The Abu Dhabi Supplemental Agreement shall be amended by substituting in subparagraph (A) (a) of Article 2 thereof the words "the amount receivable by the Ruler" for the words "an amount equal to fifty per centum of the profit" and substituting the word and figures "Article 2 (1) (a)" for the word and figure "Article 2."

**ARTICLE 3**

The Ruler intends to amend the Abu Dhabi Income Tax Decree in the manner set out in the Schedule hereto.

**ARTICLE 4**

1. The additional revenues receivable by the Ruler as a result of the amendment contained in Article 2 hereof shall be accepted by the Ruler as a fair appropriate and final settlement of all claims by the Ruler against the Company relating to the Ruler's Share in respect of any period prior to the Effective Date. Such settlement is without prejudice to the ascertainment of the cost of operations for the period commencing 1st January 1970 which remain to be ascertained in accordance with

*Abu Dhabi*

the provisions of Schedule 2 of the 1965 Agreement as amended by the Amortisation Agreement.

2. The Ruler expressly recognises that the Shareholders' Trading Associates have, in preparing their income tax returns under the Abu Dhabi Income Tax Decree (which they submitted through the Company as their agent) in respect of all taxable years before the Effective Date, used the proper basis for determining their respective net incomes and their respective income tax liabilities.

**ARTICLE 5**

1. This Agreement shall take effect as supplemental to the 1965 Agreement.
2. References to the 1965 Agreement in the Abu Dhabi Supplemental Agreement and the Abu Dhabi Amortisation Agreement shall from the Effective Date be read and construed as references to the 1965 Agreement as amended by this Agreement.
3. References to the Abu Dhabi Income Tax Decree in the Abu Dhabi Supplemental Agreement and the Abu Dhabi Amortisation Agreement shall from the Effective Date be read and construed as references to that Decree as amended by the provisions contained in the Schedule hereto.
4. Subject to the provisions of this Agreement all the before mentioned Agreements shall remain in full force and effect.

**ARTICLE 6**

This Agreement has been drawn up in the Arabic and English languages, but in the event of any discrepancy between the meanings of the English and Arabic texts hereof, the English text shall prevail.

**ARTICLE 7**

This Agreement shall have the force of law and shall come into force as soon as both of the following events have occurred:

1. This Agreement has been executed by the parties hereto.
2. The amendment to the Abu Dhabi Income Tax Decree set out in the Schedule hereto has been enacted as part of the law of Abu Dhabi.

**THE SCHEDULE ABOVE REFERRED TO**

(Agreed Translation)

**IN THE NAME OF ALLAH THE COMPASSIONATE**

**THE MERCIFUL**

**EMIRI DECREE NO. ( )**

We, Zayid Bin Sultan Al Nahaiyan, Ruler of Abu Dhabi, in the public interest, order the enactment of the following decree:

*Selected Documents — 1971*

ARTICLE 1

This Decree may be cited as the Abu Dhabi Income Tax (Amendment) Decree, 1971 and shall be read and construed as one with the Abu Dhabi Income Tax Decree 1965 which [as amended by the Abu Dhabi Income Tax (Amendment) Decree 1966, the Abu Dhabi Income Tax (Amendment) Decree 1970 and the Abu Dhabi Income Tax (Amendment) Decree 1970 No. 2] is hereafter referred to as the Principal Decree.

ARTICLE 2

This Decree shall come into force on the first day of January 1970 and Income Tax in respect of any financial year ending after that date shall be paid in accordance with the provisions of the Principal Decree as amended by this Decree.

ARTICLE 3

The Principal Decree is hereby amended as follows:

- (a) By inserting after the words "by an amount equal to 50 % of the income of that producing company for such income tax year derived from such oil dealt in" in paragraph (19) of Article 2 the following words in brackets:  
"(but by an amount equal to 55 % of so much of the income of that producing company as is derived from dealing in oil exported from the Sheikdom on and after 14th November 1970)."
- (b) By inserting after the words "at the rate of 50 %" in paragraph (2) of Article 4 the following words in brackets:  
"(but in respect of so much of its taxable income as is derived from dealing in oil exported from the Sheikdom on and after 14th November 1970 the rate shall be 55 %)."

Zayid Bin Sultan Al Nahaiyan,  
Ruler of Abu Dhabi

Promulgated in Abu Dhabi by us this day ninth of Thu Al Hija 1391 Hijra, corresponding to this day 5th of February 1971.

Ruler of Abu Dhabi

Witness

For and on behalf of ABU DHABI PETROLEUM COMPANY LIMITED

Witness

## CHAPTER II

### Algeria

#### ALGERIAN LEGISLATION

*The following is an unofficial translation of the most important pieces of legislation passed by the People's Democratic Republic of Algeria in 1971.*

*Ordinance No. 71-8 of February 24, 1971, declaring the nationalization of the assets, shares, stocks, rights and interests of any and all natures of the companies, subsidiaries, or establishments known by the commercial name, acronym or designation of the Société d'exploitation des hydrocarbures de Hassi R'Mel (S.E.H.R.) and all the mining interests held by any and all companies in the concessions of Nord In Aménas, Tin Fouyé Sud, Alrar Est, Alrar Ouest, Nezla Est, Bridès, Toual, Rhourde Chouff and Rhourde Adra, as well as the mining interests relative to gas proceeding from the deposits of Gassi Touil, Rhourde Nous, Nezla Est, Zarzaïtine and Tiguentourine.*

In the name of the people,

The Head of the Government, President of the Council of Ministers,

Upon the report of the Minister of Industry and Energy,

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted,

*Does hereby order:*

#### ARTICLE 1

The following shall be nationalized as of the date of publication of this ordinance in the Official Gazette of the People's Democratic Republic of Algeria:

1. The assets, shares, stocks, rights and interests of any and all natures which in Algeria make up the property of the "Société d'exploitation des hydrocarbures de Hassi R'Mel" (S.E.H.R.), the registered office of which is in Paris (8ème) at 32, rue de Ponthieu.

More generally, the assets, shares, stocks, rights and interests of any and all natures

*Selected Documents — 1971*

- held by any and all companies, subsidiaries, or establishments known by the commercial name, the acronym or the designation, be it total or partial, of the "Société d'exploitation des hydrocarbures de Hassi R'Mel" (S.E.H.R.).
2. All the mining interests, including operating plants already installed as well as installations and conduits serving for the evacuation of the products, directly or indirectly held by any and all companies in the following concessions:
- Nord In Aména, granted under a decree of January 20, 1962, to the "Compagnie de recherches et d'exploitation de pétrole au Sahara" (C.R.E.P.S.), whose registered office is at In Aména.
  - Tin Fouyé Sud, granted under a decree of February 26, 1962, to the C.R.E.P.S. Company.
  - Alrar Est, granted by a decree of February 26, 1962, to C.R.E.P.S. and Compagnie des pétroles d'Algérie (C.P.A.), whose registered office is in Algiers at 7, rue Abou Hamou Moussa.
  - Alrar Ouest, granted under Decree No. 67-114 of July 7, 1967, to the C.R.E.P.S. and C.P.A. companies.
  - Nezla Est, granted under Decree No. 66-290 of September 21, 1966, to the Société nationale de recherches et d'exploitation des Pétroles en Algérie (SN REPAL), having its registered office in Algiers, Chemin du Réservoir à Hydra.
  - Bridès, granted under Decree No. 67-117 of July 7, 1967, to the companies C.R.E.P.S. and C.P.A.
  - Toual, granted under Decree No. 67-119 of July 7, 1967, to the companies C.R.E.P.S. and C.P.A.
  - Rhourde Chouff, granted under Decree No. 69-119 of July 29, 1969, to the following companies: "Société de participations pétrolières" (PETROPAR), having its registered office in Paris (15ème), at 7, rue Nélaton; "Compagnie Franco-Africaine de recherches pétrolières" (FRANCAREP), having its registered office in Paris (15ème), at 15, Square Max Hymans; and "El Paso Europe-Afrique" (EL PASO), having its registered office in Paris (7ème), at 31, Quai Anatole France.
  - Rhourde Adra, granted under Decree No. 69-116 of July 29, 1969, to the companies PETROPAR, FRANCAREP, and EL PASO.
3. The mining interests relative to gas, regardless of its origin or its composition, held directly or indirectly by any and all companies in the following concessions:
- Gassi Touil, granted under a decree of February 14, 1962,
  - Rhourde Nous, granted under a decree of June 15, 1962,
  - Nezla Est, granted under a decree of September 21, 1966,
  - Zarzatine, granted under a decree of October 27, 1961,
  - Tiguentourine, granted under a decree of October 27, 1961.

**ARTICLE 2**

There shall be drawn up, within a period to be fixed subsequently, a descriptive and estimative inventory of the assets, shares, stocks, rights and interests nationalized, in so far as necessary, by decree.

*Algeria*

### ARTICLE 3

The nationalization resulting from this ordinance shall give the right to an indemnity to be paid by the State, the manner of determination and of settlement of which shall be fixed, in so far as necessary, by decree.

### ARTICLE 4

Any and all physical or juridical persons who by any right whatsoever hold all or part of the assets, shares, stocks, rights and interests referred to in Article 1 above, shall be bound to make a declaration to this effect to the Ministry of Industry and Energy and to transfer the possession thereof to such physical or juridical persons as shall be designated for this purpose by decree.

### ARTICLE 5

Any and all contracts or commitments, or more generally, any and all legal or other bonds or obligations which by their nature might encumber the value of the property nationalized under Article 1 above or might render operating conditions more onerous or more constraining, may be denounced by a decision of the Minister of Industry and Energy.

### ARTICLE 6

Failure to declare or to make the nationalized property available, or to hand it over under the best possible conditions, may entail the total or partial cancellation of the right to indemnity provided for under Article 3 above.

Any attempted sabotage, destruction, deterioration or concealment of the nationalized property and of any and all documents relative to such property shall be liable to the sanction provided for in the foregoing paragraph, without prejudice to the sanctions provided for by the laws in force.

### ARTICLE 7

This ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, February 24, 1971.

Houari Boumediene

*Ordinance No. 71-9 of February 24, 1971, declaring that gases associated with liquid hydrocarbons originating in any and all hydrocarbon deposits located in Algeria belong exclusively to the State.*

*Selected Documents — 1971*

In the name of the people,

The Head of the Government, President of the Council of Ministers upon the report of the Minister of Industry and Energy,

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;

Considering the Saharan Oil Code together with the amendment thereto; and

Considering Ordinance No. 65-287 of November 18, 1965, declaring the ratification of the Accord of Algiers between the People's Democratic Republic of Algeria and the French Republic, pertaining to the settlement of questions relative to hydrocarbons and the industrial development of Algeria, signed in Algiers on July 29, 1965,

*Does hereby order:*

**ARTICLE 1**

Gases proceeding from any and all liquid or gaseous hydrocarbon deposits located in Algeria in which it is the liquid hydrocarbons that are chiefly produced are hereby declared to be the exclusive property of the State.

**ARTICLE 2**

Companies holding mining titles for the exploitation of liquid or gaseous hydrocarbons in Algeria, pertaining to the deposits referred to in Article 1 above, are bound, at the request of the State, to hand over gas produced during the course of extraction of liquid hydrocarbons, free of charge.

**ARTICLE 3**

In the event that technical or economic data submitted are deemed satisfactory, the companies referred to in Article 2 above may obtain from the State authorization to utilize or exploit the gas referred to in Article 1 above. The manner of utilization or exploitation shall, in this case, be fixed by the State.

**ARTICLE 4**

Any and all provisions contrary to this ordinance are hereby abrogated.

**ARTICLE 5**

This ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, February 24, 1971.

Houari Boumediene

*Algeria*

*Ordinance No. 71-10 of February 24, 1971, declaring the nationalization of the property, shares, stocks, rights and interests of any and all natures of the SOPEG, SOTHRA, and TRAPES companies the property, stocks, shares, rights and interests of any and all natures of the CREPS Company in the TRAPSA Company, and the pipelines known as "PK 66 In Aména Méditerranée à Obaïd" and "Hassi-R'Mel—Haoud-El-Hamra."*

**In the name of the people,**

The Head of the Government, President of the Council of Ministers, upon the report of the Minister of Industry and Energy,

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted,

**Does hereby order:**

**ARTICLE 1**

The following are nationalized as of the date of publication of this ordinance in the Official Gazette of the People's Democratic Republic of Algeria:

1. The assets, shares, stocks, rights and interests of any and all natures which in Algeria make up the property of the Société Pétrolière de Gérance (SOPEG), having its registered office at 64, rue Pierre Charron, Paris (8ème), and more generally the property shares, stocks, rights and interests of any and all natures held by any and all companies, subsidiaries, or establishments known under the commercial name, the acronym or the designation, be it total or partial, of "Société Pétrolière de Gérance" (SOPEG).
2. The assets, shares, stocks, rights and interests of any and all natures which in Algeria make up the property of the "Société de transport du gaz naturel de Hassi R'Mel à Arzew" (SOTHRA), having its registered offices at Béthioua (Oran), and more generally the property, shares, stocks, rights and interests of any and all natures held by any and all companies, subsidiaries, or establishments known under the commercial name, acronym or the designation, be it total or partial, of "Société de transport du gaz naturel de Hassi R'Mel à Arzew" (SOTHRA).
3. The assets, shares, stocks, rights and interests of any and all natures which in Algeria make up the property of the "Société de transport des pétroles de l'Est Saharien" (TRAPES), having its registered office at 7, rue Nélaton, Paris (15ème), and more generally the property, shares, stocks, rights and interests of any and all natures held by any and all companies, subsidiaries, or establishments known under the commercial name, the acronym or the designation, be it total or partial, of "Société de transport des pétroles de l'Est Saharien" (TRAPES).
4. The assets, shares, stocks, rights and interests of any and all natures of the "Compagnie de recherches et d'exploitation de pétrole au Sahara" (CREPS) in the "Compagnie des transports par pipelines au Sahara" (TRAPSA).

---

*Selected Documents — 1971*

5. The pipeline known as "PK 66 In Aménas Méditerranée à Ouanet," together with the equipment and accessories used for its operation and maintenance, belonging to the Compagnie de recherche et d'exploitation de pétrole au Sahara (CREPS).
6. The pipeline known as "Hassi R'Mel—Haoud El Hamra," together with the equipment and accessories used for its operation and maintenance, belonging to the "Société Nationale de recherche et d'exploitation des pétroles en Algérie (SN REPAL) and the Compagnie française des pétroles (Algérie) (CFP[A])."

**ARTICLE 2**

There is drawn up, within a time limit to be set subsequently, a descriptive and estimative inventory of the property shares, stocks, rights and interests nationalized, in so far as necessary, by decree.

**ARTICLE 3**

The nationalization arising from this ordinance shall give the right to an indemnity payable by the State, the manner of determination and settlement of which shall be fixed, in so far as necessary by decree.

**ARTICLE 4**

Any and all physical or juridical persons who by any right whatsoever hold all or part of the assets, shares, stocks, rights and interests referred to in Article 1 above are bound to make a declaration to this effect to the Ministry of Industry and Energy and to transfer the possession thereof to such physical or juridical persons as shall be designated, for this purpose, by decree.

**ARTICLE 5**

Any contract or commitment or, more generally, any and all legal or other bonds or obligations which by their nature might encumber the value of the property nationalized in pursuance of Article 1 above, or might render its operating conditions more onerous or more constraining, may be denounced by a decision of the Minister of Industry and Energy.

**ARTICLE 6**

Failure to declare the nationalized property or to make it available or hand it over under the best conditions may entail the total or partial cancellation of the right to indemnity provided for under Article 3 above.

Any attempted sabotage, destruction, deterioration or concealment of the nationalized property and of any and all documents related to such property shall be liable to the sanction provided for in the foregoing paragraph, without prejudice to the sanctions provided for by the laws in force.

*Algeria*

## ARTICLE 7

This ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, February 24, 1971.

Houari Boumediene

*Ordinance No. 71-11 of February 24, 1971, declaring the partial nationalization of the assets, shares, stocks, rights and interests of any and all natures of the companies CFP(A), CREPS, PETROPAR, SNPA, SOFREPAL, COPAREX, OMNIREX, EURAFREP and FRANCAREP.*

In the name of the people,

The Head of the Government, President of the Council of Ministers,

Upon the report of the Minister of Industry and Energy,

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted,

*Does hereby order:*

## ARTICLE 1

The following are nationalized as of the date of publication of this ordinance in the Official Gazette of the People's Democratic Republic of Algeria:

1. 51 % of the assets, shares, stocks, rights and interests of any and all natures, and notably 51 % of the mining interests held by any and all physical or juridical persons in the hydrocarbon concessions which in Algeria make up the property of:
  - Compagnie française des pétroles (Algérie) (CFP[A]), the registered office of which is located in Paris (16ème) at 5, rue Michel Ange,
  - Société de participations pétrolières (PETROPAR), the registered office of which is located in Paris (15ème) at 7, rue Nélaton,
  - Société nationale des pétroles d'Aquitaine (SNPA), the registered office of which is located at 92 Tour Aquitaine, Courbevoie, France,
  - Compagnie de participations de recherches et d'exploitation pétrolière (COPAREX), the registered office of which is located in Paris (7ème) at 280, bd Saint-Germain,
  - Société Omnim de recherches et d'exploitation pétrolières (OMNIREX), the registered office of which is located in Paris (7ème) at 280, bd Saint-Germain,
  - Société de recherches et d'exploitation de pétrole (EURAFREP), the registered office of which is located in Paris (8ème) at 75, Champs-Elysées,

*Selected Documents — 1971*

- Compagnie franco-africaine de recherches pétrolières (FRANCAREP), the registered office of which is located in Paris (15ème) at 15, Square Max Hymans,
  - And more generally, 51 % of the assets, shares, stocks, rights and interests of any and all natures held by any and all companies, subsidiaries, or establishments known under the commercial name, the acronym or the designation of CFP(A), PETROPAR or SNPA;
2. 22 % of the assets, shares, stocks, rights and interests of any and all natures held by any and all physical or juridical persons of other than Algerian nationality in the “Compagnie de recherche et d’exploitation de pétrole au Sahara” (CREPS), the registered office of which is located at In Aména (Oasis);
  3. 2 % (two percent) of the assets, shares, stocks, rights and interests of any and all natures held by any and all physical or juridical persons notably 2 % of the mining interests held in the hydrocarbon concessions which in Algeria make up the property of the Société française de recherche et d’exploitation des pétroles en Algérie (SOFREPAL), the registered office of which is located in Paris (15ème) at 7, rue Nélaton.

**ARTICLE 2**

There shall be drawn up, within a time limit to be set subsequently, a descriptive and estimative inventory of the assets, shares, stocks, rights and interests nationalized, in so far as necessary, by decree.

**ARTICLE 3**

The nationalization resulting from this ordinance shall give the right to an indemnity payable by the State, the manner of determination and of settlement of which shall be fixed, in so far as necessary, by decree.

**ARTICLE 4**

Any and all physical or juridical persons who by any right whatsoever hold all or part of the assets, shares, stocks and interests referred to in Article 1 above shall be bound to make a declaration to this effect to the Ministry of Industry and Energy and to transfer the possession thereof, in the proportion fixed in Article 1 above, to such physical or juridical persons as shall, to this effect, be designated by decree.

**ARTICLE 5**

Any contract or commitment, or more generally, any and all legal or other bonds or obligations which by their nature might encumber the value of the property nationalized by virtue of Article 1 above, or might make the operating conditions thereof more onerous or more constraining, may be denounced by decision of the Minister of Industry and Energy.

*Algeria*

**ARTICLE 6**

Failure to declare the nationalized property or to make it available or hand it over under the best conditions may entail the total or partial cancellation of the right to indemnity provided for under Article 3 above.

Any attempted sabotage, destruction, deterioration or concealment of nationalized property and of any and all documents relative to such property shall be liable to the sanction provided for under the foregoing paragraph, without prejudice to the sanctions provided for by the laws in force.

**ARTICLE 7**

This ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, February 24, 1971.

Houari Boumediene

*Decree No. 71-64 of February 24, 1971, relative to the transfer of the property nationalized under Ordinances Nos. 71-8 and 71-9 of February 24, 1971, to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH).*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390,  
corresponding to July 21, 1970, whereby the Government was constituted,  
Considering Ordinance No. 71-8 of February 24, 1971, declaring the nationalization of  
the assets, shares, stocks, rights and interests of any and all natures of companies, sub-  
sidiaries, or establishments known under the commercial name, the acronym or the designation  
of the Société d'Exploitation des Hydrocarbures de Hassi R'Mel (SEHR)  
and all the mining interests held by any and all companies in the concessions of Nord  
In Aména, Tin Fouyé Sud, Alrar Est, Alrar Ouest, Nezla Est, Bridès, Toual, Rhourde  
Chouff and Rhourde Adra, as well as the mining interests relative to gas on the deposits  
of Gassi Touil, Rhourde Nous, Nezla Est, Zarzaïtine and Tiguentourine,  
Considering Ordinance No. 71-9 of February 24, 1971, declaring that the gases associated  
with liquid hydrocarbons proceeding from all hydrocarbon deposits situated in  
Algeria are exclusive property of the State,

*Does hereby decree:*

**ARTICLE 1**

The totality of the assets, shares, stocks, rights and interests nationalized pursuant to  
Ordinances Nos. 71-8 and 71-9 of February 24, 1971, referred to above, is transferred

*Selected Documents — 1971*

by virtue of the present decree to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH), having its registered office in Algiers, Algeria.

**ARTICLE 2**

The Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH) shall, in accordance with the conditions to be fixed by a joint decision of the Minister of Finance and the Minister of Industry and Energy, pay to the Public Treasury an amount equivalent to compensation for the property transferred under Article 1 above.

**ARTICLE 3**

The Minister of Finance and the Minister of Industry and Energy are entrusted, each with regard to what concerns him, with the carrying out of this decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, February 24, 1971.

Houari Boumediene

*Decree No. 71-65 of February 24, 1971, declaring the transfer of the property nationalized under Ordinance No. 71-10 of February 24, 1971, to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH).*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390,  
corresponding to July 21, 1970, whereby the Government was constituted; and  
Considering Ordinance No. 71-10 of February 24, 1971, declaring the nationalization  
of the assets, shares, stocks, rights and interests of any and all natures of the SOPEG,  
SOTHRA and TRAPES companies, the assets, shares, stocks, rights and interests of  
any and all natures of the CREPS Company in the TRAPSA Company, and the pipe-  
lines known as "PK 66 In Aménas Méditerranée à Ohanet" and "Hassi R'Mel-Haoud-  
El-Hamra,"

*Does hereby decree:*

**ARTICLE 1**

The totality of the assets, shares, stocks, rights and interests nationalized pursuant to  
Ordinance No. 71-10 of February 24, 1971, referred to above, is transferred by virtue

*Algeria*

of this decree to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH), the registered office of which is located in Algiers, Algeria.

**ARTICLE 2**

The Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH) shall in accordance with the conditions which shall be fixed by a joint decision of the Minister of Finance and the Minister of Industry and Energy, pay to the Public Treasury an amount equivalent to the value of the properties transferred under Article 1 above.

**ARTICLE 3**

The Minister of Finance and the Minister of Industry and Energy are entrusted, each one with regard to what concerns him, with the carrying out of this decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, February 24, 1971.

Houari Boumediene

*Decree No. 71-66 of February 24, 1971, declaring the transfer of the property nationalized under Ordinance No. 71-11 of February 24, 1971, to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH).*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390,  
corresponding to July 21, 1970, whereby the Government was constituted, and  
Considering Ordinance No. 71-11 of February 24, 1971, declaring the partial nationalization of the assets, shares, stocks, rights and interests of any and all natures in the companies CFP(A), CREPS, PETROPAR, SNPA, SOFREPAL, COPAREX, OMNIREX, EURAFREP and FRANCAREP,

*Does hereby decree:*

**ARTICLE 1**

The totality of the assets, shares, stocks, rights and interests nationalized in pursuance of Ordinance No. 71-11 of February 24, 1971, referred to above, is hereby transferred to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH), the registered office of which is located in Algiers, Algeria.

*Selected Documents — 1971*

ARTICLE 2

The Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH) shall, in accordance with the conditions which shall be fixed by a joint decision of the Minister of Finance and the Minister of Industry and Energy, pay to the Public Treasury an amount equivalent to compensation for the properties transferred pursuant to Article 1 above.

ARTICLE 3

The Minister of Finance and the Minister of Industry and Energy are entrusted, each one with respect to what concerns him, with the carrying out of this decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, February 24, 1971.

Houari Boumediene

MINISTRY OF FINANCE

*Instruction n° 9 H.C. of April 9, 1971, relative to the financial regime applicable to the revenue from exports and local sales of liquid hydrocarbons of the companies holding mining titles.*

Subject-matter: financial regime applicable to the revenue from exports and local sales of liquid hydrocarbons of the companies holding mining titles, following the publication, in the Official Gazette of the People's Democratic Republic of Algeria, of Ordinance No. 71-11 of February 24, 1971, declaring the partial nationalization of the assets, shares, stocks, rights and interests of whatever nature of the companies, subsidiaries or establishments known under the corporate name, acronym or designation of:

- Compagnie Française des Pétroles (Algérie) (CFP[A]),
  - Compagnie de Recherche et d'Exploitation de Pétrole au SAHARA (CREPS),
  - Société de participations pétrolières (PETROPAR),
  - Société Nationale des Pétroles d'Aquitaine (SNPA),
  - Société Française de Recherche et d'Exploitations des pétroles en Algérie (SOFREPAL),
  - Compagnie de participation de Recherches et d'Exploitations Pétrolières (COPAREX),
  - Omnium de Recherches et d'Exploitations pétrolières (OMNIREX),
  - Société de Recherche et d'Exploitation de Pétrole (EURAFREP),
  - Compagnie Franco-Africaine de Recherches Pétrolières (FRANCAREP),
- références:

*Algeria*

- Ministérial decision of July 16, 1964,
- Instruction n° 1 H.C. of August 1, 1964,
- Instruction n° 2 H.C. of January 18, 1965,
- Instruction n° 3 H.C. of June 3, 1967,
- Instruction n° 4 H.C. of December 21, 1967,
- Instruction n° 5 H.C. of June 23, 1970,
- Instruction n° 6 H.C. of February 24, 1971,
- Instruction n° 7 H.C. of February 24, 1971.

SINGLE TITLE

Financial regime applicable to the revenue from exports and local sales of liquid hydrocarbons.

The companies holding mining titles in accordance with the declaration of principles of March 18, 1962, and referred to by ordinance n° 71-11 of February 24, 1971, are bound to repatriate the total amount of their hydrocarbon exports revenue in Algeria.

To enable the above mentioned companies to meet their normal liabilities in foreign currency, an account "convertible dinars" shall be opened in their names in an intermediate bank approved in Algeria. Without any other authorization, this account shall be credited with the amounts which these companies were authorized to hold outside Algeria pursuant to instruction n° 6 H.C. of February 24, 1971; which amounts they must henceforward repatriate in Algeria under this instruction.

This account could also be credited with the amounts of their internal sales revenue, corresponding at most to the quantity mentioned in title II of instruction n° 6 H.C. referred to above, provided that the Central Bank has granted its authorization upon a request which could be only presented by the company concerned holding mining titles, after the actual payment of the sale product by the buyer.

This account "convertible dinars" mentioned in the foregoing paragraph could be freely debited at the end of each legal term on the request of the titleholder company as long as the said company:

- did not contravene the regulation taken by the Minister of Industry and Energy with respect to the fixing of minimum selling prices,
- fulfills the whole of its fiscal obligations,
- fulfilled the whole of its obligations with respect to repatriation of its exports revenue.

This instruction comes into effect from April 13, 1971, and shall be, therefore, applicable to all the payments that shall be made from this date.

Any former provision contrary to this instruction is abrogated.

Done in Algiers on April 9, 1971.

The Minister of Finance

Smaïn Mabroug

*Selected Documents — 1971*

*Ordinance No. 71-22 of April 12, 1971, determining the conditions under which foreign companies exercise their activities in the field of exploration and exploitation of liquid hydrocarbons.*

In the name of the people,

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;

Considering Ordinance No. 65-287 of November 18, 1965, declaring the ratification of the Accord of Algiers between the People's Democratic Republic of Algeria and the French Republic, pertaining to the settlement of questions relative to hydrocarbons and the industrial development of Algeria, signed in Algiers on July 29, 1965;

Considering Ordinance No. 71-8 of February 24, 1971, declaring the nationalization of the assets, stocks, shares, rights and interests of any and all natures of the companies, subsidiaries, or establishments known by the commercial name, acronym or designation of the Société d'Exploitation des Hydrocarbures de Hassi R'Mel (SEHR) and all the mining interests held by any and all companies in the concessions of Nord In Aména, Tin Fouyé Sud, Alrar Est, Alrar Ouest, Nezla Est, Bridès, Toual, Rhourde Chouff and Rhourde Adra, as well as the mining interests relative to gas proceeding from the deposits of Gassi Touil, Rhourde Nous, Nezla Est, Zarzaïtine and Tiguentourine;

Considering Ordinance No. 71-9 of February 24, 1971, declaring that gases associated with liquid hydrocarbons proceeding from any and all hydrocarbon deposits located in Algeria are exclusive property of the State;

Considering Ordinance No. 71-11 of February 24, 1971, declaring the partial nationalization of the assets, shares, stocks, rights and interests of any and all natures of the companies CFP(A), CREPS, PETROPAR, SOFREPAL, SNPA, COPAREX, OMNIREX, EURAFREP and FRANCAREP;

Considering Decree No. 71-64 of February 24, 1971, relative to the transfer of the property nationalized under Ordinances Nos. 71-8 and 71-9 of February 24, 1971, to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH);

Considering Decree No. 71-65 of February 24, 1971, declaring the transfer of the property nationalized under Ordinance No. 71-10 of February 24, 1971, to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH);

Considering Decree No. 71-66 of February 24, 1971, declaring the transfer of the property nationalized under Ordinance No. 71-11 of February 24, 1971, to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH);

Considering the Saharan Oil Code and the whole of texts which modified it;  
Considering the Mining Code;

## *Algeria*

*Does hereby order:*

### **ARTICLE 1**

Any and all foreign physical or juridical persons desiring to exercise activities in the field of exploration and exploitation of liquid hydrocarbons in Algeria are only entitled to do so in association with the national company "SONATRACH."

Those activities can be exercised only on parcels covered by mining titles attributed to the national company "SONATRACH."

### **ARTICLE 2**

For this purpose foreign physical or juridical persons mentioned within Article 1 above are prescribed to constitute a commercial company subjected to the Algerian law with a registered office in Algeria.

### **ARTICLE 3**

Association mentioned in Article 1 above could have the form of either a commercial company or an association in participation. Whatever the selected form, the percentage of participation of the national company "SONATRACH" must be of at least 51 %.

### **ARTICLE 4**

Control instruments of the association mentioned in Article 1 above are composed of a general manager and a board with representatives from the parties to the association. The majority of the Board is composed of members representing the national company "SONATRACH."

The general manager is nominated by the Board from among SONATRACH's representatives and upon the proposal of the national company "SONATRACH."

The Board delegates to the general manager the whole of control, management and administrative powers with the exception of powers reserved to the Board by provisions from law, regulation, corporate charter or contracts.

The general manager may require the assistance of a deputy to whom he may delegate some of his powers.

This deputy can be nominated by the Board upon proposal from the associate holding the minority of interests.

### **ARTICLE 5**

The direction of exploration and exploitation operations, on behalf of the association, is insured by the national company "SONATRACH."

However, this activity of operator may, subject to approval from the national company "SONATRACH," be assumed either by the commercial company mentioned by

*Selected Documents — 1971*

Article 3 above or by a company created for this purpose in which the national company "SONATRACH" will hold at least 51 % of the company capital, or even, but only for the exploration phase, by the partner holding the minority of interests. The operator is bound to call by priority upon Algerian products, goods and services, notably those which can be provided by "SONATRACH" and its subsidiaries.

**ARTICLE 6**

In the event of a discovery of liquid-hydrocarbon-bearing strata and if the form of partnership is association in participation, each of the partners extracts from the field its share of production at cost price and pro rata to its percentage of participation.

If the form of the association is a commercial company, partners may agree on a field production sharing.

In the event of the sharing of the production between the two partners, each of them is individually responsible for taxes and duties related to its share of production as well as for compliance with the exchange regulation.

**ARTICLE 7**

Excluded from the field of application of participation allowed to the partner holding the minority of interest are products extracted from gaseous hydrocarbon fields, be it dry or wet, discovered within the framework of activities referred to by this Ordinance.

**ARTICLE 8**

Each partner is bound to proceed, pro rata to the percentage of its participation, to investments necessary to the safeguard and the optimum development of hydrocarbon potential reserves which he is interested in exploiting, as well as to any appropriate actions of development aimed to a continuous renewal of the exploited reserves.

**ARTICLE 9**

Provisions of this Ordinance, with the exception of those mentioned in the second paragraph of Article 1 above, also apply to:

- The companies whose property was partly nationalized by Ordinance No. 71-11 of February 21, 1971.
- The Société Nationale de Recherche et d'Exploitation des pétroles en Algérie (SN REPAL), whose registered office is located in Algiers, Chemin du Réservoir, Hydra.
- The cooperative association established by Article 1 of the Franco-Algerian Accord of July 29, 1965, ratified by Ordinance No. 65-287 of November 18, 1965.
- The association on the "surface of exploitation" of Berkaoui, established by Article 1 of Annex No. VI to the Agreement of July 29, 1965, mentioned above.

*Algeria*

—The Société Pétrolière Française en Algérie (SOPEFAL), whose registered office is located in Paris (15th), 7, rue Nélaton.

**ARTICLE 10**

Ways of application for this Ordinance, notably in what concerns nature, composition and operation of the association, and its control instruments, exercise of the activity of operator, and execution by companies and associations referred to in Article 8 above will be, in so far as necessary, defined by decree.

**ARTICLE 11**

This Ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971

Houari Boumediene

*Ordinance No. 71-23 of April 12, 1971, declaring the partial nationalization of the assets, shares, stocks, rights and interests of any and all natures of the companies SOPEFAL and CFP(A).*

In the name of the people,

The Head of the Government, President of the Council of Ministers,

Upon the report of the Minister of Industry and Energy,

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;

Considering Ordinance No. 71-22 of April 12, 1971, determining conditions under which foreign companies exercise their activities in the field of exploration, and exploitation of liquid hydrocarbons;

*Does hereby order:*

**ARTICLE 1**

The following are nationalized as of the date of publication of this Ordinance in the Official Gazette of the People's Democratic Republic of Algeria;

1. 2 % (two percent) of the assets, shares, stocks, rights and interests of any and all natures held by any and all physical or juridical persons notably 2 % (two percent) of the mining interests held on the parcels and permits of exploitation and in the hydrocarbon concessions and surfaces of exploitations, which in Algeria make up

*Selected Documents — 1971*

- the property of the Société Pétrolière Française en Algérie (SOPEFAL), whose registered office is located in Paris (15th), 7, rue Nélaton.
2. 2 % (two percent) of the assets, shares, stocks, rights and interests of any and all natures held by the Compagnie Française des Pétroles (Algérie) (CFP[A]), whose registered office is located in Paris (16th), 5, rue Michel Ange, in the "surface of exploitation" of Berkaoui-Ben Kahla.

**ARTICLE 2**

There shall be drawn up, within a time limit to be set subsequently, a descriptive and estimative inventory of the assets, shares, stocks, rights and interests nationalized, in so far as necessary, by decree.

**ARTICLE 3**

The nationalization resulting from this Ordinance shall give the right to an indemnity payable by the State, the manner of determination and of settlement of which shall be fixed, in so far as necessary, by decree.

**ARTICLE 4**

Any and all physical or juridical persons who by any right whatsoever hold all or part of the assets, shares, stocks, rights and interests referred to in Article 1 above shall be bound to make a declaration to that effect to the Ministry of Industry and Energy and to transfer the possession thereof, in the proportion fixed in Article 1 above, to such physical or juridical persons as shall, to this effect, be designated by decree.

**ARTICLE 5**

Any contract or commitment, or more generally, any and all legal or other bonds or obligations, which by their nature might encumber the value of the property nationalized by virtue of Article 1 above or might make the operating conditions thereof more onerous or more constraining, may be denounced by decision of the Minister of Industry and Energy.

**ARTICLE 6**

Failure to declare the nationalized property or to make it available or hand it over under the best conditions may entail the total or partial cancellation of the right to indemnity provided for under Article 3 above.

Any attempted sabotage, destruction, deterioration or concealment of nationalized property and of any and all documents relative to such property shall be liable to the sanction provided for under the foregoing paragraph, without prejudice to the sanctions provided for by the laws in force.

*Algeria*

## ARTICLE 7

This Ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

Houari Boumediene

*Ordinance No. 71-24 of April 12, 1971, modifying Ordinance No. 58-1111 of November 22, 1958, concerning exploration, exploitation and transport by pipeline of hydrocarbons and the fiscal regime of these activities.*

In the name of the people,

The Head of the Government, President of the Council of Ministers,

Upon the report of the Minister of Industry and Energy and of the Minister of Finance,

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;

Considering Ordinance No. 65-287 of November 18, 1965, declaring the ratification of the Accord of Algiers between the People's Democratic Republic of Algeria and the French Republic, pertaining to the settlement of questions relative to hydrocarbons and the industrial development of Algeria, signed in Algiers on July 29, 1965;

*Does hereby order:*

## ARTICLE 1

Article 63 of Ordinance No. 58-1111 of November 22, 1958, is modified as follows:

"(a) Companies referred to in Article 62 above have to pay a royalty equivalent to twelve and a half percent of the value of liquid hydrocarbons and five percent of the value of gaseous hydrocarbons extracted from the fields.

With the exception of hydrocarbons extracted by companies whose stock capital is held entirely by the State and derogation or specific conditions provided for by the concession convention concerning the determination of the basic prices, the value of liquid hydrocarbons being used as reference for calculation of the royalty mentioned above cannot be lower than the price published at loading or delivery ports, calculated in accordance with the provisions of Article C 32 of the model convention, modified by Decree No. 71-100 of April 12, 1971.

Excluded in the calculation of the royalty are quantities of liquid or gaseous hydrocarbons which are either consumed for direct production needs, or reintroduced into the field, or lost, or unused, as well as related substances.

The tax is paid, in the case of liquid hydrocarbons, in kind or cash, at the choice

*Selected Documents — 1971*

of the Minister in charge of hydrocarbons if the Minister does not specify any preference, cash payment will be assumed.

When the tax is paid in kind, the producer is obliged to deliver it at his expense to the normal delivery points of transportation installations of extracted products.

- (b) The conditions of calculation of basic price in case of cash payment as well as the conditions of payment or delivery of the royalty are defined by the concession convention or, for an exploitation permit-holder, by the model convention.  
In case of late payment or late delivery of the royalty, amounts or quantities due are increased by one per thousand for each day of delay; the administration collector of the royalty is entitled, however, to reduce or waive this increase.
- (c) A decision of the Ministry of Finance, upon advice from the Minister in charge of hydrocarbons at the request of the producer and upon presentation by the latter of justifiable claims of difficulties of exceptional importance encountered in production, may grant partial reduction of the royalty."

**ARTICLE 2**

Article 64, VI 1°) of Ordinance No. 58-1111 of November 22, 1958, is modified as follows:

"1. The value of products sold as defined for the basis of the royalty referred to in Article 63 above."

**ARTICLE 3**

Article 64, VI 2°) of Ordinance No. 58-1111 of November 22, 1958, is modified as follows:

"2. In that case, the value of the shared part of production paid as royalty in kind, as defined for the basis of the royalty referred to in Article 63 above."

**ARTICLE 4**

Article 64, VII 2°) of Ordinance No. 58-1111 of November 22, 1958, is modified as follows:

"2. Depreciation appearing in company accounts within the limit of the rates set by Ordinance No. 65-317 of December 30, 1965, including that depreciation which may have been deferred during previous financial years of loss, on the condition that these depreciation amounts appeared each year on a statement provided with the same form and within the same period of time as that required for stating depreciation in these accounts."

**ARTICLE 5**

Article 64, VII 4°) of Ordinance No. 58-1111 of November 22, 1958, is modified as follows:

### *Algeria*

"4. Bank charges, and discount charges as well as interest paid on debts contracted by the company, on the condition that these debts received prior administration approval."

## ARTICLE 6

Article 65 of Ordinance No. 58-1111 of November 22, 1958, is modified as follows:  
"The amount of taxable profit defined in Article 64 of the present Ordinance and related to activities referred to in Article 62 above is liable to a direct tax calculated at the rate of fifty-five percent."

## ARTICLE 7

The second paragraph of Article 71 of Ordinance No. 58-1111 of November 22, 1958, is modified as follows:

"Disputes relating to said taxes are in the first and last instance within the jurisdiction of the Algerian Supreme Court.

However, these disputes may be first presented before a conciliation commission in the manner set forth below:

- (a) The conciliation proceeding is initiated by a registered letter with return receipt requested sent by the plaintiff to the other party within two months from the start of litigation. The conciliation request shall contain a statement of plaintiff's claims.
- (b) Within 30 days following the receipt of the registered letter, which initiates the conciliatory proceedings, each party shall appoint his mediator and notify this designation to the other party. The two members of the commission so designated shall within 15 days following the designation of the second mediator nominate jointly a third member of the commission who will be the Chairman.

In the absence of an agreement between the mediators designated by each party or if the defendant has not named his mediator, the most diligent party shall within 30 days ask the President of the Algerian Supreme Court, or, if unavailable, his deputy, to make such designation.

- (c) Unless otherwise agreed by the parties, the conciliation proceedings will take place in Algeria.
- (d) If the plaintiff does not notify the other party of the designation of his mediator within the time and according to the procedure established above, he is considered to have waived conciliation.

If the defendant does not designate his mediator within the same period, the procedure shall continue as soon as the parties have been notified of the designation of the commission chairman by the President of the Algerian Supreme Court or his deputy.

- (e) The chairman of the commission may decide all preliminary investigation procedures, ask each side to provide all documents, to hear all witnesses, to designate all experts, to establish their assignment, and set the time for the submission of their report.

*Selected Documents — 1971*

- (f) Except upon agreement by the parties or upon unanimous decision by the commission, the conciliation decision must be given within 120 days from the date of the designation of the commission chairman.
- (g) The decision of the commission is by majority. In the case of a divided vote, the chairman has the casting vote. The grounds for the decision shall be stated. The dissenting mediator may, if he so chooses, inform the parties of his decision.
- (h) The arbitration is considered to have failed if, within 20 days after notification of the decision to the parties, each party has not notified the other his acceptance of the decision. Conciliation is also considered to have failed if the commission could not be established within the time specified above.
- (i) Fees and expenses of the arbitration shall be fixed by the chairman of the commission and divided between the parties.
- (j) Notwithstanding the expiration of the time allowed to initiate the contentious proceeding, the parties have an additional 30 days following the failure of conciliation to refer the matter to the Algerian Supreme Court."

**ARTICLE 8**

All provisions of the present Ordinance are effective from January 1, 1971.

**ARTICLE 9**

Any and all provisions contrary to this Ordinance are hereby abrogated.

**ARTICLE 10**

This Ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

Houari Boumediene

*Ordinance No. 71-25 of April 12, 1971, concerning the fiscal regime applicable to the Compagnie Française des Pétroles (Algérie) (CFP[A]), for its activities related to the surface of exploitation of Berkaoui-Ben Kahla, to the Société Pétrolière Française en Algérie (SOPEFAL) and to the companies subrogated for the latter in its rights and obligations.*

In the name of the people,

The Head of the Government, President of the Council of Ministers,

Upon the report of the Minister of Industry and Energy and of the Minister of Finance,  
Considering Ordinance No. 58-1111 of November 22, 1958, concerning exploration,

*Algeria*

exploitation and transport by pipeline of hydrocarbons and the fiscal regime of these activities, modified by Ordinance No. 71-24 of April 12, 1971;

Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;

Considering Ordinance No. 65-287 of November 18, 1965, declaring the ratification of the Accord of Algiers between the People's Democratic Republic of Algeria and the French Republic, pertaining to the settlement of questions relative to hydrocarbons and the industrial development of Algeria, signed in Algiers on July 29, 1965;

Considering Ordinance No. 71-22 of April 12, 1971, determining conditions under which foreign companies exercise their activities in the field of exploration and exploitation of liquid hydrocarbons;

Considering Decree No. 61-1045 of September 16, 1961, sanctioning the model convention for concession of liquid or gaseous hydrocarbon deposits, modified by Decree No. 71-100 of April 12, 1971;

*Does hereby order:*

**ARTICLE 1**

The fiscal regime defined by Articles 64 to 71 of Ordinance No. 58-1111 of November 22, 1958, mentioned above, modified by Ordinance No. 71-24 of April 1971, mentioned above, and by Articles C 32 to C 47 of the model convention for concession sanctioned by Decree No. 61-1045 of September 16, 1961, mentioned above, modified by Decree No. 71-100 of April 12, 1971, mentioned above, is applicable to the Société Pétrolière Française en Algérie (SOPEFAL), to the companies subrogated for it in its rights and obligations and to the Compagnie Française des Pétroles (Algérie) (CFP[A]), for its activities in the "surface of exploitation" of Berkaoui-Ben Kahla.

**ARTICLE 2**

All provisions of the present Ordinance are effective from January 1, 1971.

**ARTICLE 3**

Any and all provisions contrary to this Ordinance are hereby abrogated.

**ARTICLE 4**

This Ordinance shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

Houari Boumediene

*Selected Documents — 1971*

*Decree No. 71-98 of April 12, 1971, declaring the creation of companies.*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390,  
corresponding to July 21, 1970, whereby the Government was constituted;  
Considering Ordinance No. 71-11 of February 24, 1971, declaring the partial  
nationalization of the assets, shares, stocks, rights and interests of any and all natures  
of the companies CFP(A), CREPS, PETROPAR, SOFREPAL, SNPA, COPAREX,  
OMNIREX, EURAFREP and FRANCAREP;

Considering Ordinance No. 71-22 of April 12, 1971 determining conditions under which  
foreign companies exercise their activities in the field of exploration and exploitation  
of liquid hydrocarbons;

Considering Decree No. 71-66 of February 24, 1971, relative to the transfer of the  
property nationalized under Ordinance No. 71-11 of February 24, 1971, to the Société  
 Nationale pour la Recherche, la Production, le Transport, la Transformation et la  
Commercialisation des Hydrocarbures (SONATRACH);

*Does hereby decree:*

**ARTICLE 1**

It is created between the national company SONATRACH and each of the companies,  
whose property in Algeria was nationalized in the proportion of 51 % through  
Ordinance No. 71-11 of February 24, 1971, the same number of stock companies  
subject to the Algerian law, with their head office located in Algeria and whose  
registered capital is owned in the proportion of 51 % by the national company  
SONATRACH.

**ARTICLE 2**

It is required to contribute to each company created by the abovementioned Article 1:

1. By the national company SONATRACH: the corresponding portion of property  
transferred to SONATRACH through Decree No. 71-66 of February 24, 1971.
2. By each of the companies whose property was nationalized in the proportion of  
51 % of the non-nationalized portion of its property.

**ARTICLE 3**

Within 21 days after publication of the present Decree in the Official Gazette of the  
People's Democratic Republic of Algeria, a general assembly, required to comply with  
the legal formalities for each created company, will have to be called by SONATRACH,  
the majority shareholder.

*Algérie*

**ARTICLE 4**

Transfers of assets, as a result of the implementation of the abovementioned provisions, are tax and duty free.

**ARTICLE 5**

The companies created through the abovementioned Article 1 will be lawfully substituted as holders of mining titles previously held by each company whose property was nationalized in the proportion of 51 %.

**ARTICLE 6**

All provisions contrary to the present Decree do not apply to the companies created through the abovementioned Article 1.

**ARTICLE 7**

The Minister of Industry and Energy, the Minister of Justice, the Keeper of the Seals, the Minister of Commerce and the Minister of Finance are entrusted, each with regard to what concerns him, with the carrying out of this Decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

Houari Boumediene

*Decree No. 71-99 of April 12, 1971, declaring the transfer of the assets nationalized by Ordinance No. 71-23 of April 12, 1971, to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH).*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;  
Considering Ordinance No. 71-23 of April 12, 1971, declaring the partial nationalization of the assets, shares, stocks, rights and interests of any and all natures of the companies SOPEFAL and CFP(A);

*Selected Documents — 1971*

*Does hereby decree:*

**ARTICLE 1**

The whole of assets, shares, stocks, rights and interests nationalized in accordance with Ordinance No. 71-23 of April 12, 1971, hereabove mentioned, is transferred by present decree to the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH), whose head office is in Algiers (Algeria).

**ARTICLE 2**

The Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH) shall, in accordance with the conditions which shall be fixed by a joint decision of the Minister of Industry and Energy and the Minister of Finance, pay to the Public Treasury an amount equivalent to the value of the property transferred pursuant to Article 1 above.

**ARTICLE 3**

The Minister of Industry and Energy and the Minister of Finance are entrusted, each with regard to what concerns him, with the carrying out of this Decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

**Houari Boumediene**

*Decree No. 71-100 of April 12, 1971, concerning amendments to the model convention for concession of liquid or gaseous hydrocarbon deposits, sanctioned by Decree No. 61-1045 of September 16, 1961.*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinance No. 58-1111 of November 22, 1958, concerning exploration, exploitation, transport by pipeline of hydrocarbons and the fiscal regime of these activities, modified by Ordinance No. 71-24 of April 12, 1971;  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;  
Considering Ordinance No. 65-287 of November 18, 1965, declaring the ratification of the Accord of Algiers between the People's Democratic Republic of Algeria and the French Republic, pertaining to the settlement of questions relative to hydrocarbons and the industrial development of Algeria, signed in Algiers on July 29, 1965;

*Algeria*

Considering Decree No. 61-1045 of September 16, 1961, sanctioning the model convention for concession of liquid or gaseous hydrocarbon deposits;

*Does hereby decree:*

**ARTICLE 1**

Article C 32 of the model convention hereabove mentioned is modified as follows:

"Any and all titleholder or partner selling any product extracted from the field will have to publish the price at which he agrees to sell these products at the loading or delivery point. In the case when the titleholder or partner has delegated all or part of his commercial activities to a third party, the above obligation may be assumed under the responsibility of the titleholder or partner by that third party. The quality being the same and considering the transport charges and the geographical situation of the products, that price should not differ from the prices published in the ports of producing areas which in large part also participate in the supply of the major consuming markets. In any case, that price should not be lower than the price which shall be determined by Decree."

**ARTICLE 2**

Article C 34 of the model convention hereabove mentioned is modified as follows:

"Whenever the titleholder or partner has contracted sales at prices which are not in conformity with the current prices on the international market, the Minister in charge of hydrocarbons may proceed to correct these prices both with respect to the calculation of the fixed basic price, as provided in Article C 38, and with respect to the publishing of these prices, as provided in Article 64 VI 1°) of the Ordinance."

**ARTICLE 3**

Article C 37 of the model convention hereabove mentioned is modified as follows:

"The first payments of the royalty provided under Article 63 of the Ordinance, will be made on the basis of the prices defined under Article C 38 below. These payments are of a provisional nature and are regularized before the 10th day of the month, according to the notification of the basic price provided for under Article C 38."

**ARTICLE 4**

Article C 38 of the model convention hereabove mentioned is modified as follows:

"Except for derogations or particular status determined or to be determined by decree, further payments are made according to the basic prices notified to the taxpayer by the Minister in charge of hydrocarbons before the end of the first month of each legal term, for the previous term.

*Selected Documents — 1971*

Those basic prices are calculated, for every field, by company and by loading port. They are equal to the average, weighed by the amount of crude oil of each quality sold to each terminal, of the realized prices obtained by the taxpayer.

When the basic price, calculated in that way, is lower than the average, weighed by the amounts of crude oil of each quality sold to each terminal, of the prices published during the term under consideration, that average of published prices will be retained as the basic price used for the calculation of the royalty.

Such provision does not apply to companies, the capital of which is held entirely by the State. In the calculation of the averages hereabove mentioned, the following will not be taken into account:

- (a) Products transferred at an intermediate price between partners, except for the final sales;
- (b) Products sold either at the request of the administration for the refining needs of Algeria or in the framework of commercial agreements between Algeria and other countries, except if the prevailing prices, CIF Algerian refineries or FOB Algeria, are higher than the published prices as defined in Article C 32 above.

In case of an important and foreseeable modification of the above basic prices, the administration may also notify the companies of new basic prices that can be applied to the provisional payments referred to in Article C 39, (b) relative to the current term."

## ARTICLE 5

Article C 39 of the model convention hereabove mentioned is modified as follows:  
"Before the 10th day of every month the taxpayer must:

- (a) Send to the Minister in charge of hydrocarbons and to the accountant in charge of collection a declaration, in the form established by decision of the administration, stating the production of the previous month liable to royalty payment on the basis determined in Article C 35. That declaration has to be made even if the taxpayer has not yet been notified of any basic prices.
- (b) Make to the accountant in charge of collection a provisional payment, which is equal to an instalment of the royalty due for the term, on the basis of that production and of the basic price resulting from the most recent communication of the Minister in charge of hydrocarbons received before the beginning of the month during which the payment has to be made."

## ARTICLE 6

Article C 40 (a) of the model convention hereabove mentioned is modified as follows:

- (a) "Send to the addresses indicated in the above Article C 39 a declaration in the form established by decision of the administration, stating the volume liable to cash royalty payment for the previous term and the basic price for that term."

*Algeria*

**ARTICLE 7**

Article C 41 of the model convention hereabove mentioned is modified as follows:  
“notwithstanding the above dispositions with respect to the date of provisional payment,  
the final royalty payment and the calculation of the basic price:

- (a) Quantities produced from the beginning of the exploitation of the field up to the first payments provided for in Article C 37 referred to above are considered to be produced during the following month.
- (b) Quantities sent through a means of transportation during its first month of operation are also considered to be produced during the following month.
- (c) The basic prices of quantities referred to in (a) and (b) above are calculated according to the provisions of Article C 38.”

**ARTICLE 8**

The new provisions of the model convention hereabove mentioned are lawfully applicable, effective January 1, 1971, to the existing conventions for concessions.

**ARTICLE 9**

The Minister of Industry and Energy and the Minister of Finance are entrusted, each with regard to what concerns him, with the carrying out of this Decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

Houari Boumediene

*Decree No. 71-101 of April 12, 1971, fixing the final value to be retained for the fiscal reference prices applicable to petroleum companies for the fiscal years 1969 and 1970.*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinance No. 58-1111 of November 22, 1958, relative to exploration,  
exploitation and transport by pipeline of hydrocarbons and the fiscal regime of these  
activities, modified by Ordinance No. 71-24 of April 12, 1971;  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I,  
1390, corresponding to July 21, 1970, whereby the Government was constituted;  
Considering Ordinance No. 65-287 of November 18, 1965, declaring ratification of  
the Accord of Algiers between the People's Democratic Republic of Algeria and the  
French Republic, pertaining to the settlement of questions relative to hydrocarbons and  
the industrial development of Algeria, signed in Algiers on July 29, 1965;

*Selected Documents — 1971*

Considering Decree No. 61-1045 of September 16, 1961, sanctioning the model convention for concession of liquid or gaseous hydrocarbon deposits;

*Does hereby decree:*

**ARTICLE 1**

With a view to the liquidation of taxes due for the fiscal years 1969 and 1970, the fiscal reference prices to be retained as final value for the determination of the taxable profit defined in Article 64 of Ordinance No. 58-1111 of November 22, 1958, mentioned above, and modified by Ordinance No. 71-24 of April 12, 1971, are fixed as follows:

- 2.770 U.S. dollars per barrel FOB Bejaïa.
- 2.785 U.S. dollars per barrel FOB Arzew.
- 2.730 U.S. dollars per barrel FOB La Skhirra (Tunisia).

These reference prices are corrected by 0.015 U.S. dollar per barrel per whole degree API downward below 40° API or upward above 44.5° API.

**ARTICLE 2**

However, the actual realized price is retained for:

1. Liquid products associated to gaseous hydrocarbon production,
2. Transfers between partners at an intermediate price,
3. Sales made on the Administration's request for the domestic consumption requirements.

**ARTICLE 3**

For the transfer of oil refined in Algeria for finished products export, the reference price is understood to be CIF refinery and is equal to the reference price FOB as defined in Article 1 above and relative to the nearest port.

**ARTICLE 4**

The royalties paid during 1969 and 1970 are considered final with respect to both the determination of the taxable profit, mentioned in Article 1 above, and the calculation of the direct tax, provided in Article 65 of Ordinance No. 58-1111 of November 22, 1958, mentioned above and modified by Ordinance No. 71-24 of April 12, 1971. In case the loss and profit account provided in Article 64 shows a deficit situation, an adjustment of the royalty will be made on the basis of the value of prices mentioned in Article 1 above.

**ARTICLE 5**

The provisions of this Decree are applicable to liquid products proceeding from concessions exploited by the Compagnie Algérienne de Recherches et d'Exploitations

## *Algeria*

Pétrolières (CAREP), the Compagnie Française des Pétroles (Algérie) (CFP[A]), the Compagnie de Participations, de Recherches et d'Exploitations Pétrolières (COPAREX), the Compagnie de Recherches et d'Exploitations de Pétrole au Sahara (CREPS), the Société de Recherches et d'Exploitations de Pétrole (EURAFREP), the Compagnie Franco-Africaine de Recherches Pétrolières (FRANCAREP), the Omnium de Recherches et Exploitations Pétrolières (OMNIREX), the Société de Participations Pétrolières (PETROPAR), the Société d'Exploitation des Hydrocarbures de Hassi R'Mel (SEHR), the Société Nationale des Pétroles d'Aquitaine (SNPA), and the Société Française pour la Recherche et l'Exploitation des Pétroles en Algérie (SOFREPAL).

## ARTICLE 6

The Minister of Industry and Energy and the Minister of Finance are entrusted, each with regard to what concerns him, with the carrying out of this Decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

Houari Boumediene

*Decree No. 71-102 of April 12, 1971, fixing the minimum level of posted prices for liquid hydrocarbons for the period January 1, to March 19, 1971.*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinance No. 58-1111 of November 22, 1958, relative to exploration, exploitation and transport by pipeline of hydrocarbons and the fiscal regime of these activities, modified by Ordinance No. 71-24 of April 12, 1971;  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;  
Considering Decree No. 61-1045 of September 16, 1961, sanctioning the model convention for concession of liquid or gaseous hydrocarbon deposits, modified by Decree No. 71-100 of April 12, 1971.

*Does hereby decree:*

## ARTICLE 1

The price mentioned in the third paragraph of Article C 32 of the model convention for concession, modified by Decree No. 71-100 of April 12, 1971, is fixed for the period January 1 to March 19, 1971, as follows:

*Selected Documents — 1971*

—2.700 U.S. dollars per barrel FOB Bejaïa,  
—2.715 U.S. dollars per barrel FOB Arzew,  
—2.670 U.S. dollars per barrel FOB La Skhirra (Tunisia),  
for crude oil of 44° API.

Prices indicated above are adjusted as follows:

- (a) Plus 0.002 U.S. dollar per tenth of degree API above 44° API;
- (b) Minus 0.002 U.S. dollar per tenth of degree API below 44° API down to 40° API;
- (c) Minus 0.0015 U.S. dollar per tenth of degree API below 40° API.

**ARTICLE 2**

The Minister of Industry and Energy and the Minister of Finance are entrusted, each with regard to what concerns him, with the carrying out of this Decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

**Houari Boumediene**

*Decree No. 71-103 of April 12, 1971, fixing the minimum level of posted prices for liquid hydrocarbons, applicable from March 20, 1971.*

The Head of the Government, President of the Council of Ministers,  
Upon the report of the Minister of Industry and Energy,  
Considering Ordinance No. 58-1111 of November 22, 1958, relative to exploration, exploitation and transport by pipeline of hydrocarbons and the fiscal regime of these activities, modified by Ordinance No. 71-24 of April 12, 1971;  
Considering Ordinances Nos. 65-182 of July 10, 1965, and 70-53 of 18 Jumada I, 1390, corresponding to July 21, 1970, whereby the Government was constituted;  
Considering Decree No. 61-1045 of September 16, 1961, sanctioning the model convention for concession of liquid or gaseous hydrocarbon deposits, modified by Decree No. 71-100 of April 12, 1971.

*Does hereby decree:*

**ARTICLE 1**

From March 20, 1971, the price mentioned in the third paragraph of Article C 32 of the model convention for concession, modified by Decree No. 71-100 of April 12, 1971, is fixed under the terms defined in the following articles.

## *Algeria*

### ARTICLE 2

The price mentioned above includes a "basic element" to which an "additional element" is added.

### ARTICLE 3

The "basic element" mentioned above is fixed as follows:

- (a) Up to December 31, 1971, for a 44° API crude oil it is equal to:
  - 3.350 U.S. dollars per barrel FOB Bejaïa and FOB Skikda.
  - 3.365 U.S. dollars per barrel FOB Arzew.
  - 3.320 U.S. dollars per barrel FOB la Skhirra (Tunisia).
- (b) Starting January 1, 1972, the values fixed in paragraph (a) above will be increased by 0.020 U.S. dollar.
- (c) Starting January 1 of each of the years 1973, 1974 and 1975, the values fixed in (a) above, increased as stated in (b) above, will be each time increased again:
  1. By an amount, calculated to the nearest one thousandth of a dollar, equal to two-and-a-half percent (2.5 %) of the "basic element," effective on December 31 of the previous year.
  2. By an amount equal to 0.070 U.S. dollar.

Taking into account the provisions of this article, the trend of the "basic element" in terms of U.S. dollars per barrel is established as follows:

<i>Loading Port</i>	Validity Period				
	From 20/3 to 31/12/71	From 1/1 to 31/12/72	From 1/1 to 31/12/73	From 1/1 to 31/12/74	From 1/1 to 31/12/75
	Bejaïa and Skikda	3.350	3.370	3.524	3.682
Arzew	3.365	3.385	3.540	3.699	3.861
La Skhirra	3.320	3.340	3.494	3.651	3.812

In the calculation of the 2.5 % increase mentioned in (c), 1° above, and for each fraction of a dollar equal to or higher than 0.0005, the amount is rounded to the thousandth of a dollar immediately above; for each dollar fraction lower than 0.0005, the amount is rounded to the thousandth of a dollar immediately below.

### ARTICLE 4

The "additional element" mentioned in Article 2 above, calculated in terms of the sea freight market situation, is fixed to 0.250 U.S. dollar per barrel, for the period March 20 to June 30, 1971.

The calculation methods of this element, for the period following June 30, 1971, will be determined by decision of the Minister of Industry and Energy.

*Selected Documents -- 1971*

**ARTICLE 5**

The price as defined above for a 44° API crude oil will be adjusted as follows:

- (a) Plus 0.002 U.S. dollar per tenth of degree API above 44° API;
- (b) Minus 0.002 U.S. dollar per tenth of degree API below 44° API down to 40° API;
- (c) Minus 0.0015 U.S. dollar per tenth of degree API below 40° API.

**ARTICLE 6**

The provisions of this decree remain valid until December 31, 1975, and are applicable to the fiscal year 1971, starting from March 20, and to the fiscal years 1972, 1973, 1974 und 1975. However, they can be modified by decree in case of durable and notable change in the elements of price defined above or, more generally, in case of extreme change in the world oil economy, particularly a change in the monetary parities at the international level.

**ARTICLE 7**

The Minister of Industry and Energy and the Minister of Finance are entrusted, each with regard to what concerns him, with the carrying out of this Decree, which shall be published in the Official Gazette of the People's Democratic Republic of Algeria.

Algiers, April 12, 1971.

Houari Boumediene

## **CHAPTER III**

**Iran**

### **JOINT STRUCTURE AGREEMENT**

**Between**

**NATIONAL IRANIAN OIL COMPANY**

**and**

**AMERADA HESS CORPORATION**

**THIS AGREEMENT** is concluded between the National Iranian Oil Company hereinafter referred to as First Party and Amerada Hess Corporation a corporation organized and existing under the laws of the State of Delaware U.S.A. hereinafter referred to as Second Party.

WHEREAS First Party desires to expand the production and export of Iranian Petroleum, thereby increasing the benefits accruing to Iran, and to accomplish the said results with all possible expedition;

WHEREAS First Party is authorized by the Petroleum Act of July 31st 1957, to enter into an Agreement of this nature;

WHEREAS Second Party has the capital, necessary for carrying out the operations hereinafter specified, and in particular is capable of providing the requisite outlets to ensure the marketing of such Petroleum as may be discovered and produced as a result of the said operations;

WHEREAS the Parties have technical competence and management skills necessary for carrying out the operations hereinafter specified;

WHEREAS the Parties intend that the provisions of this Agreement shall be carried out in a spirit of good faith and good will;

**NOW, THEREFORE,** it is hereby agreed between First Party and Second Party, as follows:

ARTICLE 1

*Definitions*

Unless the context otherwise requires, the following definitions of certain terms hereinafter used in this Agreement shall apply for the purpose of this Agreement.

- A. "Agreement" means this instrument and the Schedule attached hereto.
- B. "First Party" means the National Iranian Oil Company or any successor thereto.
- C. "Second Party" means Amerada Hess Corporation or any person to whom a transfer is made in accordance with the provisions of this Agreement.
- D. "Petroleum Act" means the Petroleum Act of July 31, 1957.
- E. "Petroleum" means crude oil and natural gas.
- F. "Crude Oil" means crude petroleum, asphalt and all liquid hydrocarbons in their natural state or obtainable from natural gas produced in association with crude oil.
- G. "Natural Gas" means wet gas, dry gas, all other gaseous hydrocarbons produced from gas wells or the residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- H. "Internal consumption in Iran" means Petroleum products or incidental substances sold within Iran for the purpose of consumption in contrast to their export from Iran as cargo lot.
- I. "Posted Price" means the f.o.b. price published for each gravity of Crude Oil offered for sale to buyers generally for export at the relevant point of export, which price shall be a price established on the basis of prevailing posted prices for Crude Oil in the Persian Gulf with due regard to geographical location and API gravity.
- J. "Petroleum Operations" means all the functions described in Section 1 of Article 9 of this Agreement.
- K. "Cubic Meter" means one cubic meter at sixty degrees Fahrenheit and at normal atmospheric pressure.
- L. "Effective Date" means the date on which the Act approving this Agreement has received the royal assent and for the purposes of this Agreement any reference in the Petroleum Act to this date of the Agreement shall be understood to be a reference to the Effective Date.
- M. "Land" means any land whether submerged or not.
- N. "Fixed Assets" means any asset erected, installed or constructed, permanently affixed and to be used directly in the conduct of operations hereunder.
- O. "Taxation Period" means a calendar year of twelve months commencing on January 1st of each year respectively or such other period as may be agreed to between the Parties and approved by the Ministry of Finance of Iran.
- P. "Assigned Area" means the area described in Schedule A or the areas remaining after reductions therefrom as provided for in Article 3 of this Agreement.

*Iran*

- Q. "Barrel" means a barrel of 42 Standard U.S. gallons at 60 degrees Fahrenheit and at normal atmospheric pressure.
- R. "Date of Commencement of Commercial Production" means the date defined under Section 2 of Article 29 of this Agreement.
- S. The Unit Production Cost of each Party to be determined by BUSHCO as referred to in Section 2 (a) of Article 17, Section 2 (b) of Article 18 and Section 3 of Article 21, shall include and be limited to a per unit allocation of total exploration costs incurred by Second Party through BUSHCO plus the per unit allocation of all the costs of the Joint Structure through BUSHCO, established in accordance with good oil accounting principles as agreed from time to time, between the two parties, but shall not include any proportions of rentals, Cash Bonuses, Stated Payments, etc., as paid by Second Party.  
Rental, Cash Bonuses and Stated Payments shall be included only by Second Party, in its costs as referred to in Section 7 of Article 26.

**ARTICLE 2**

*Establishment of Joint Structure*

- 1. First Party and Second Party do hereby mutually enter into a Joint Structure relationship, which as contemplated by the Petroleum Act, does not constitute a separate juridical personality.
- 2. Except as otherwise provided herein and in the Petroleum Act, the Parties hereto shall participate equally in and under said Joint Structure relationship. First Party and Second Party sometimes in this Agreement are referred to collectively as "the Parties hereto" or as "the Joint Structure."
- 3. All equipment, machinery, installations and other property purchased or obtained hereunder at the expense of the joint account of the Parties hereto shall be owned, and all costs and expenses required for operations hereunder (except those costs and expenses which Second Party alone is required to contribute and pay for exploratory operations) shall be contributed and paid, by the Parties hereto fifty percent (50 %) by First Party and fifty percent (50 %) by Second Party. Petroleum produced from the Assigned Area shall be owned fifty percent (50 %) by First Party and fifty percent (50 %) by Second Party. Title to Second Party's share of Petroleum shall pass at wellhead. Each Party shall have the right to call for the delivery in kind, to it or its nominee, of its share of the Petroleum as described in this Agreement.

**ARTICLE 3**

*Assigned Area and Relinquishment*

- 1. An Area as described in Schedule A hereof is assigned to the Joint Structure to exercise therein the operations authorized by this Agreement through the agency of Bushehr Petroleum Company a corporation to be formed by the Parties hereto, as hereinafter provided in Article 5 hereof.

2. Not later than the end of the third year from the Effective Date, the total Assigned Area mentioned in Section 1 of this Article shall be reduced by not less than 25 %. Thereafter within a maximum further period of two years, the Assigned Area shall be reduced again, if necessary, so that the total Assigned Area retained shall not exceed 50 % of the original Assigned Area.
3. The Area excluded to arrive at the reduction prescribed in Section 2 of this Article shall consist of blocks of not less than two hundred square kilometers each with an average length of not more than six times their average width, or if not convenient, in such shape and size as First Party shall consider appropriate.
4. Not less than three months in advance of the return of parts of the Assigned Area as provided for in Section 2 of this Article, BUSHCO shall furnish to First Party a description of the boundaries of the parts to be returned. In determining the parts to be returned the guiding principle shall be that the least prospective areas in the light of the then available information shall be returned first.
5. If at the end of the sixth year from the Effective Date commercial production within the meaning of this Agreement shall not have been achieved in the Assigned Area, the same shall be returned to First Party.
6. If at the end of the sixth year from the Effective Date commercial production has been achieved, only those parts of the Area on which commercially exploitable fields shall have been discovered shall remain at the disposal of the Joint Structure. Such part of the Area shall each be defined by a polygon having such definite geographical co-ordinates as determined by BUSHCO and approved by NIOC. The Area so defined shall not exceed that of the polygon enclosing the lowest structural contour lines, or the limits of the area capable of producing Petroleum, as supported by all relevant data and which lies within the Assigned Area, whichever the case may be.

#### ARTICLE 4

##### *Registration of Second Party*

Within thirty days after the Effective Date, Second Party, or its transferees designated under Article 31 shall file an application for registration with the Iranian Registration Department in compliance with Iranian Law and regulations concerning the Registration of Companies.

#### ARTICLE 5

##### *Registration of BUSHCO*

1. Within sixty days after the Effective Date of this Agreement, the Parties hereto shall constitute and register with the Iranian Registration Department, a company which shall be a non-profit Company and which shall carry out, for the joint account as agent of both Parties, the Operations herein specified; it being understood, however, that in carrying out and performing the exploratory operations herein made binding

*Iran*

on Second Party, said Company shall act as agent of Second Party only. The name of the said Company shall be BUSHEHR PETROLEUM COMPANY and shall be referred to herein as BUSHCO. The nationality of BUSHCO shall be Iranian and it shall be subject to the provisions of the Iranian Commercial Code in respect of any matter not provided for in its Statutes.

2. BUSHCO shall perform and carry out all operations required or permitted hereunder; and the Parties hereto shall pay all the costs and expenses required for such operations, jointly or individually as required by the terms of this Agreement, through the agency of BUSHCO. All contracts shall be made in the name of BUSHCO.
3. The costs and expenses required for equipping, staffing, maintaining and operating the office or offices of BUSHCO shall be allocated on a fair and equitable basis, in accordance with good accounting practices, between the Parties hereto respectively according to the operation or operations from time to time being served; and the Parties hereto shall bear and pay their respectively allocated shares thereof. Without limiting the generality of the foregoing, the costs and expenses referred to in this Section 3 shall include salaries and wages of employees of BUSHCO and of employees lent on a temporary, part-time or permanent basis by one of the Parties hereto to BUSHCO, the cost of employee vacations, sickness, medical, hospital, pension, thrift, savings and other employees benefit plans to BUSHCO or to the Party hereto lending such employees, according to the conditions and rates prevailing in the oil industry generally in Iran for both Iranian and expatriate employees, the amounts paid to contractors and the amounts charged by either or both of the Parties hereto for the services of any of their respective departments, said services to be performed only under written contracts with BUSHCO with the approval of both Parties hereto.

**ARTICLE 6**

*Board of Directors and Auditors*

1. Each of the Parties hereto shall subscribe and pay for half of the capital of BUSHCO. The equal participation of the Parties hereto in BUSHCO shall be reflected in the management of the said Company. Accordingly half of the members of the Company's Board of Directors shall be nominated by First Party and half by Second Party. The selection of a Chairman, a Vice-Chairman, Managing Director and Deputy Managing Director from among the Members of the Board shall be effected in the manner laid down in the Company's Statutes, it being understood that, during the 6 year exploration period the said Chairman and Deputy Managing Director shall be Directors nominated by First Party and the said Vice-Chairman and Managing Director shall be directors nominated by Second Party.  
It is further understood that for a period of five years after the 6 year exploration period, the Vice-Chairman and the Managing Director shall be nominated by First Party and the Chairman and the Deputy Managing Director shall be nominated by Second Party.

*Selected Documents — 1971*

This process of nomination will be reversed alternately for every period of five years for the duration of this Agreement.

2. The Audit Board shall consist of two auditors, one to be nominated by each Party.

**ARTICLE 7**

*Capital of the Company*

1. The initial authorized capital of BUSHCO shall be Rials 2,500,000 (Two and one half Million Rials). This capital may be increased from time to time, as necessary, in the manner prescribed in BUSHCO's Statutes.
2. Each Party will provide fifty percent of the initial capital mentioned above, as well as of any increases thereto.

**ARTICLE 8**

*Voting at General Meetings*

At the general meetings of BUSHCO which will be presided over by the Chairman of the Board of Directors, each partner shall have one vote. In the case of an equality of voting on any issue to be decided at any such meeting, the issue in question shall be deferred once and once only for further consideration at a general meeting to be held one month from the date of the first meeting, or such later time as the Parties hereto may agree.

If after the adoption of the above procedure there is still an equality of voting, the matter shall be referred to the Parties for resolution.

**ARTICLE 9**

*Authorized Operations*

1. The operations authorized to be carried out by the Parties through BUSHCO under this Agreement include:
  - (a) The exploration for Petroleum in the Assigned Area by geological, geophysical and other methods, including drilling for Petroleum, the production of such Petroleum and all other functions normally associated with or reasonably incidental to exploration and exploitation operations.
  - (b) The conveyance of Petroleum produced under this Agreement from fields to sea board and the storing of Petroleum and the delivery of Petroleum produced from the Assigned Area by any means including loading on board ships, and all other functions normally associated with or reasonably incidental to, storage and transportation.

*Iran*

2. It is understood that the reclaiming of lands and creation of islands and the construction of railway lines, ports, telephone, telegraph, wireless services and aviation facilities and the use thereof shall be subject to the prior consent in writing of the Government, which consent shall be sought through the NIOC and NIOC shall endeavour to obtain such consent within a reasonable period of time and without undue delay.

**ARTICLE 10**

*Contractors*

In order to expedite the performance of operations authorized hereunder, BUSHCO without in any way diminishing the responsibilities of the Parties to Iran, may engage contractors for performing any part of the authorized operations provided that:

- (a) NIOC receives a copy of all such contracts;
- (b) Such contractors are selected on a prudent business judgement with due regard to the provisions of Paragraph (c) hereinafter, and that under comparable terms and conditions priority is given to Iranian contractors;
- (c) BUSHCO shall always make every effort to ensure that the most economically advantageous cost for operations is obtained.

**ARTICLE 11**

*Second Party's Obligations*

1. Second Party, acting through BUSHCO, shall be subject to the following obligations with respect to exploratory operations including exploration drilling:
  - (a) To exert its utmost efforts to explore the Assigned Area to the maximum extent consistent with good petroleum industry practice;
  - (b) To submit to First Party a detailed progress report on the work done as well as a comprehensive final report;
  - (c) To carry the entire burden of the expenses of exploration, namely First Party's share as well as its own, any cost of utilization of land being part of such expenses;
  - (d) To observe the provisions of Sections 2, 3, 5, 7 and 8 of Article 12.
2. Second Party shall prepare in respect of each calendar year, exploration programmes and budgets for the Assigned Area in such a manner as to provide for and ensure the implementation of at least the minimum obligations set forth in this Agreement. In preparing such programmes and budgets, Second Party shall consult with First Party and shall take into consideration the views expressed and proposals made by First Party. Such consultation shall take place not later than September 15th each year.

*Selected Documents — 1971*

3. The programmes and budgets stipulated in Section 2 above shall be furnished to First Party, in respect of each calendar year on or before October 31st of the preceding year. Any revision to the said programmes and budgets shall only be made after prior consultation with First Party.
4. After the establishment of the First Commercial Field under this Agreement all exploration programmes and budgets shall be prepared by First and Second Parties jointly.
5. When the daily rate of production of Crude Oil has reached 100,000 barrels, Second Party undertakes to discuss and decide with First Party the construction of oil refinery or other plants for treatment of Petroleum produced from the Assigned Area.

ARTICLE 12

*BUSHEHR Petroleum Company's Obligations*

The Parties hereto, acting through BUSHCO, at their joint cost and expense shall be subject to the following obligations:

1. To exert their utmost efforts to develop any discovered field(s) to the maximum extent with all possible speed consistent with good petroleum industry practice; and in particular to observe sound technical and engineering practices in conserving the deposits of hydrocarbons, and in general in carrying out the operations authorized under this Agreement;
2. To maintain full records of all technical operations performed under this Agreement;
3. To keep in Iran full and correct accounts of their operations in such a manner as to present a fair, clear and accurate record of the cost of such operations, and for this purpose to adopt a suitable accounting procedure to be agreed upon by both Parties and revised from time to time in the light of future developments;
4. To enable authorized representatives of each Party to inspect at all reasonable times the operations and accounting thereof carried out under this Agreement, and all measuring apparatus and means of measurement and testing. All expenses except salaries, relating to such inspection shall be incurred by BUSHCO and shall be included in its operating costs;
5. To minimize the employment of foreign personnel by ensuring that foreign personnel are engaged only to occupy positions for which Iranians having the requisite and comparable qualifications and experience have not been found;
6. To prepare plans and programmes for industrial and technical training and education, and to co-operate in their execution with a view to ensuring the speedy and progressive reduction of foreign personnel in such manner that upon expiration of eight years from the Effective Date the number of foreign nationals employed by BUSHCO shall not exceed two percent of the total salaried staff employed by it, and the top executive positions occupied by non-Iranians shall not exceed 30% of the total of top executive positions available;

*Iran*

7. To be always mindful, in the conduct of their operations, of the rights and interests of Iran;
8. To ensure that each of them shall obtain, through the medium of BUSHCO as agent, as and when it may so require and within a reasonable time, any and all information in the form of accurate copies of maps, sections, and reports relating to topographical, geological, geophysical, drilling, producing, engineering und other similar matters relating to the operations authorized under this Agreement as well as all important scientific, reservoir engineering and technical data resulting from the said operations. Any information supplied by BUSHCO to one of the Parties hereto shall be submitted simultaneously in exact duplicate to the other Party;
9. BUSHCO in establishing the medical, pension savings and other similar plans from which its permanent employees and their dependants may benefit, shall conform to the related Iranian Law and Regulations and shall at all times conform to the practices prevailing in the Iranian Oil Industry;
10. To ensure the avoidance of unnecessary investment and to expedite the implementation of the provisions of this Agreement that if surplus or redundant capacity in pipelines, loading and other facilities and ancillary services exist in the installations of any oil company operating in Iran, the Parties to this Agreement must, before embarking on their own development and installation of similar facilities, seriously examine the possibilities of utilization and/or sharing of services and facilities of such other companies. Terms and conditions for right of use and/or sharing of these services und facilities will be agreed upon through direct negotiation between the parties concerned and/or through NIOC's good offices.

**ARTICLE 13**

*Confidential Nature of Information*

Any plans, maps, sections, reports, records, scientific and technical data, and any other similar information relating to the technical operations under this Agreement shall be treated by First Party, Second Party and BUSHCO as confidential in the sense that their contents or effect shall not be disclosed by either Party or by BUSHCO without the consent of the Parties hereto, such consent not to be unreasonably withheld or delayed.

**ARTICLE 14**

*Land, Water and Servitudes*

Land, water and servitudes reasonably required for the purpose of the operations hereunder shall at the request of BUSHCO be acquired by the NIOC and put at the disposal of BUSHCO.

*Selected Documents — 1971*

The acquisition of land, water and servitudes shall be effected in accordance with the procedure and subject to the conditions described in NIOC Statutes.

The purchase prices or rents paid to acquire such lands, water and servitudes together with the expenditures incurred in connection therewith, shall be reimbursed to NIOC through BUSHCO and be included in the exploration or exploitation expenditures as the case may be under this Agreement.

**ARTICLE 15**

*Drilling Obligation*

1. Exploration operations shall commence not later than six months after the Effective Date.
2. Drilling shall be commenced and continued with all reasonable speed in accordance with good petroleum industry practice; but Second Party shall in any case have commenced, within a maximum period of 18 months after the Effective Date, the drilling of at least one well for Petroleum in the Assigned Area.
3. If at the end of six years after the Effective Date, (or at the end of any extension thereof by reason of force majeure) commercial production has not been achieved in the Assigned Area the present Agreement shall become null and void and BUSHCO shall be liquidated.

**ARTICLE 16**

*End of Exploration Stage: Achievement of Commercial Production*

*End of Exploration Operations*

1. The time at which the exploration operations come to an end for each field shall be the date of submission by Second Party of a report to the effect that a commercial well has been completed. Such report shall cover the detailed history for the well including all geological, drilling, petroleum and reservoir engineering, and production test result and data. It is understood that the tests leading to the conclusion that such commercial well has been discovered and completed shall be carried out in the presence of representatives of First Party. For this purpose, First Party shall be immediately advised of any evidence of Petroleum.

*Commercial Well*

2. A well shall be considered "Commercial" either
  - (a) When its theoretical productivity estimated on the basis of the thickness of the pay zone, the petrophysical properties of the reservoir rock, PVT analysis data, productivity indices at various rates of flow and an assumed drainage area of  $\frac{1}{2}$  mile radius around the well bore, indicates that the well is capable of

*Iran*

producing by natural flow a sufficient volume of Crude Oil within a period of 6 years, the present worth value of which, based on the assumed applicable Posted Price, at the date of the evaluation and on a discount rate of 10 % shall cover 2 times the cost of drilling and completing that well, or

- (b) When it has proved to be capable of producing by natural flow Crude Oil at the rate of 2,000 b/d during 30 consecutive days for horizons not exceeding 2,500 meters in depth and 3,000 b/d for deeper horizons.

The fact that a commercial well as defined in this Section has been discovered shall not be considered sufficient in itself to establish that the relevant structure and reservoir constitute a Commercial Field.

The provisions laid down in this Article shall be equally applicable to the First Commercial Well(s) subsequently discovered in other parts of the Area.

***Commercial Field***

3. As soon as Second Party comes to the conclusion that its operations have resulted in the discovery of a Commercial Field, it shall submit a detailed report on its conclusions to First Party.
4. Second Party's report to be submitted to First Party under Section 3 above shall clearly set out the technical data including but not limited to the following:
  - (a) Geological and geophysical information, thickness of the producing zone, distance or distances of different fluid levels, core analysis, petrophysical properties of reservoir rock, PVT analysis data of reservoir fluids, potential productive capacity of the reservoir, the daily potential productive capacity of each well, the characteristics and the relevant analysis of the Crude Oil discovered, the depth, pressure and other characteristics of the reservoir and the fluids contained therein;
  - (b) The distance and accessibility of the reservoir from the seaboard and major market outlets, the availability of transport facilities to such outlets, or the cost of creating or completing such facilities;
  - (c) Any other relevant facts relied upon by Second Party and conclusions drawn therefrom;
  - (d) Opinions expressed by the expert or experts charged with the relevant operations.
5. First Party shall examine Second Party's report within a reasonable time with a view to determining whether a Commercial Field within the meaning of this Agreement as defined in Section 6 of this Article has or has not been discovered.
6. For the purpose of this Agreement the Parties agree that a field shall be regarded as commercial only if the quantity of Crude Oil reasonably foreseen as derivable therefrom is such that delivery of Crude Oil at the seaboard shall be possible on the following basis:  
If the "Present Worth" value of the cumulative volume of the Crude Oil expected to be produced and exported during the first 20 years computed on the basis of the

assumed applicable Posted Price and hereinafter referred to as the "Discounted Value" is reduced by:

- (a) "Present Worth" of cumulative operating costs in respect of the volume of the Crude Oil expected to be produced and exported during the first 20 years, including lifting, processing, storage, transportation, loading and other charges;
- (b) Total exploration expenditure incurred under this Agreement up to the discovery of the Commercial Field, plus estimated exploration expenditure to be incurred during the remainder of the Exploration Period;
- (c) Anticipated development expenditure plus the Present Worth of interest on capital to be paid by First Party relating to the development of the field concerned;
- (d) An amount equivalent to 12½ %, 14 % and 16 % of the Discounted Value referred to above; which percentage shall correspond to the applicable rate of Stated Payment as specified under Section 1 of Article 25 of this Agreement;
- (e) Any other charges relevant to the operations in question; there should be left a profit of not less than 45 % of the Discounted Value.

For the purpose of computing the Present Worth in all cases referred to in this Article a discount rate of 10 % shall be used over a period of 20 years.

7. (a) If First Party concludes that Second Party's finding to the effect that a Commercial Field has been discovered is justified it shall inform Second Party accordingly. All expenditure incurred subsequent to the date of completion of the Commercial well discovered until the Date of Commencement of Commercial Production as it is defined in Section 2 of Article 29 hereunder shall be considered as development and exploitation expenditure.  
If First Party concludes that Second Party's finding to the effect that a Commercial Field has been discovered is not justified, it shall inform Second Party of its views and the reasons therefor. Thereupon Second Party may undertake further drilling and if the results of such further drilling confirm the existence of a field capable of commercial production, all expenditure incurred subsequent to the date of completion of the first Commercial Well discovered until the Date of Commencement of Commercial Production shall be considered as development and exploitation expenditure.
  - (b) As soon as a field is recognized as commercial according to the provisions laid down in this Article, First and Second Parties shall undertake to embark on the development of such a field, taking into consideration the recoverable reserves thereof, and shall thus determine the production capacity of it called "Developed Production Capacity" to be revised from time to time by both Parties. "Developed Production Capacity" as determined hereabove, shall in no event exceed the MER of the field concerned in conformity with sound industry practice.
8. The provisions of this Article shall also apply in respect of any field discovered subsequent to the first field.

*Iran*

*Financing of Development and Exploitation of Commercial Fields.*

9. The Second Party accepts that upon discovery of any commercial field(s) it shall, if and when First Party requires, in addition to its own share, also provide First Party's 50 % share of all the expenditure required for complete development and exploitation of such commercial fields, as defined in Section 7 of this Article, according to the initial development programme as agreed between the two Parties, subject to payment by First Party of an interest equal to the rate of discount of the New York Branch of the Federal Reserve Bank of U.S.A. plus one percent, or at the rate of 7 % whichever is smaller.  
The reimbursement of the amounts due under this Section by First Party to Second Party shall be made in 10 years in 20 equal semi-annual instalments; the first payment to be made six months after the Date of Commencement of Commercial Production and subsequent payments to be made at semi-annual intervals thereafter.
10. As from the Date of Commencement of Commercial Production, for each field, the Parties hereto jointly shall assume the responsibility for all expenditures subsequent to that date, required for all petroleum operations in respect of such field. It is however understood that the provisions of this Section do not apply to the expenditure considered as a part of the implementation of the initial development programme referred to in Section 9 above.
11. Upon establishment of a Commercial Field all expenditures effected up to the date of completion of the first commercial well, in any part of the Assigned Area, shall be considered as exploration expenditure repayable to Second Party by Joint Structure in the manner prescribed in Section 13 of this Article.
12. After completion of the first Commercial Well as laid down in Section 1 of this Article, Second Party shall advance through BUSHCO as provided for in Section 1 (c) of Article 11 the exploration expenses necessary for each field for work on other parts of the Assigned Area. The aforesaid expenses shall be refunded to Second Party after commencement of commercial production from such a new field, or failing such commencement of the commercial production from the said field, after the expiry of the entire exploration period of 6 years.
13. In fulfilment of the repayment obligations, in respect of the exploration expenditure, the Joint Structure through BUSHCO shall credit the account of Second Party with a sum equal to the exploration expenditure.  
The payment to Second Party of sums credited in accordance with this Article to Second Party's Account shall be effected as from the Date of Commencement of Commercial Production annually by BUSHCO at the rate of one tenth of the exploration expenditure advanced by Second Party for each field.
14. Fifty percent of the sums paid to Second Party in repayment of exploration expenses shall be paid by Second Party to First Party.
15. If this Agreement shall be terminated pursuant to Section 3 of Article 15 there shall be no repayment obligation in respect of any expenditure incurred prior to such termination.

## ARTICLE 17

### *Production and Offtake Programme*

1. Each Party shall exercise its utmost efforts in order to ensure the sale of the maximum possible quantity of Petroleum; this, however, does not mean to diminish Second Party's obligation to provide outlets for marketing as stated in the preamble hereunder.
2. The production programme for each year shall be prepared by BUSHCO at least six months before the end of the preceding year, on the basis of "Developed production capacity" determined by First and Second Parties under Paragraph (b) of Section 7 of Article 16 of this Agreement and in accordance with the following provisions, observing the order of priority established hereunder:
  - (a) BUSHCO in carrying out the operations in Iran authorized by this Agreement, shall have the right to use, free of charge, the Petroleum produced for the conduct of its operations to the extent that such use is appropriate and necessary. During the exploration period if a commercial field has been established the Second Party shall however pay to the First Party for each unit of Petroleum used in the exploration operations hereunder, one half of Unit Production Cost of such Petroleum.
  - (b) BUSHCO shall deliver to First Party such Petroleum as may be required for Internal Consumption in accordance with the provisions of Article 21.
  - (c) BUSHCO shall supply to First and Second Parties such quantities of Petroleum as they may require in accordance with provisions of Article 18.
3. The Parties shall agree on a detailed procedure for offtake requirements and programmes.

## ARTICLE 18

### *Supplies to First and Second Parties for Export*

1. The determination of the quantities of Petroleum to be supplied to First Party and to Second Party as referred to in Article 17, Section 2 (c) shall be effected in the following manner:  
BUSHCO shall bring to the notice of First and Second Parties its estimate of production prepared in accordance with Article 17, Section 2. Second Party shall take from BUSHCO one half of the quantity available for export and shall purchase from First Party any part of the other half to the extent that the First Party may not elect to take the quantity available to it.
2. Second Party having purchased any part of First Party's share of 50 percent in any calendar year shall pay to First Party an amount equal to the volume thus purchased multiplied by one half of the sum of the following:
  - (a) The weighted yearly average of the applicable Posted Price.
  - (b) The Unit Production Cost.

*Iran*

- (c) The appropriate per barrel allocation of any interest payable by First Party under the provisions of Article 16.
- 3. Payments in respect of 2 above shall be effected on a monthly and provisional basis and shall be retroactively adjusted at the end of each year.

**ARTICLE 19**

*Export of Petroleum*

- 1. The export of Petroleum produced from the Assigned Area shall be exempt from customs duties and export taxes and shall not be subject to other taxes, charges or payments to any government authority in Iran, whether central or local.
- 2. First Party, Second Party, and their customers may freely export Petroleum from Iran without the necessity of a licence or other special formalities, save only such documentation and formalities as are described in Article 28, Section 6 of this Agreement.
- 3. Insofar as exports referred to in this Article and any imports and re-exports referred to in Article 28 are concerned, the exporter or importer may freely decide whether and with whom and to what extent the vessels, crews, cargoes and freight shall be insured.
- 4. (a) Second Party shall under comparable terms and conditions give priority to transportation of Petroleum and oil products produced under this Agreement through pipeline systems wholly or partly owned by First Party.  
(b) Second Party shall under comparable terms and conditions give priority to transportation of Petroleum produced under this Agreement by tankers owned wholly or partly by Iranian Entities which may be made available for worldwide trading.

**ARTICLE 20**

*Posted Prices*

First and Second Parties shall each publish Posted Prices in the amounts determined by the Board of Directors of BUSHCO on the basis of the definition in Article 1 (I). The Crude Oil produced under this Agreement shall be sold in Iran by First and Second Parties at such Posted Prices. This provision does not apply in respect of sales by either Party to the other Party.

**ARTICLE 21**

*Crude Oil for Internal Consumption*

- 1. BUSHCO shall supply to First Party such quantity of Crude Oil produced and saved from the Area as First Party may require for Internal Consumption in Iran provided that:

*Selected Documents — 1971*

- (a) First Party shall give written notice to BUSHCO on a quarterly basis of its requirements in accordance with the provisions of Article 17 of this Agreement.
  - (b) BUSHCO shall not be required to supply Crude Oil to First Party to the extent that such Crude Oil is required by it in carrying out its operations under this Agreement.
  - (c) First Party shall not require BUSHCO to supply Crude Oil in any annual period in quantities exceeding 10 % of BUSHCO's total production in that year.
  - (d) BUSHCO shall not require, in order to supply First Party's requirements, to produce crude oil at a rate higher than the Maximum Efficient Rate of production.
2. Crude Oil required to be supplied under Section 1 of this Article shall be delivered to First Party by BUSHCO at such point in or adjacent to the field of production as may be agreed by the Parties and BUSHCO. First Party and Second Party shall contribute equal quantities to such delivery and title to Second Party's contribution shall pass to First Party at the point where delivery is made.
  3. First Party shall pay to Second Party for Crude Oil supplied by Second Party under Section 1 of this Article an amount equivalent to the sum of Unit Production Cost plus a fee of fourteen cents per cubic meter. Such payments shall be made within fifteen days of the date of presentation by Second Party of a provisional bill therefor. Within three months after the end of each calendar year, Second Party shall adjust its billings for such calendar year in accordance with the final determination by BUSHCO of Unit Production Cost and First Party shall thereupon be debited or credited with any difference, as the case may be, and settlement thereof shall be made within fifteen days of presentation of such debit or credit note.

**ARTICLE 22**

*Natural Gas*

1. Natural Gas produced in association with Crude Oil shall be disposed of in accordance with the following order of priority:
  - (a) Utilization in the course of the operations of BUSHCO under this Agreement.
  - (b) NIOC's requirements for Internal Consumption in Iran including feed stock to be used in the manufacture of Petrochemicals (whether for Internal Consumption in Iran or for exports).
  - (c) Any remaining volumes of gas shall be made available fifty percent to First Party and fifty percent to Second Party, according to the provisions of Section 3 of this Article.
2. In cases covered by Section 1 (a) and (b) delivery shall be made at the gas/oil separators and no charge of any description shall be made to First Party.
3. (a) In case there is a surplus of associated Natural Gas after taking into account the estimated quantities of maximum requirements under Section 1 (a) and (b)

*Iran*

above, BUSHCO shall request each Party to notify BUSHCO within six months whether it elects to lift its allocated ratio under Section 1 (c) above of the available surplus of associated Natural Gas. The election by either Party so notified shall be considered as final and irreversible.

- (b) In the event Second Party does not notify BUSHCO of its election within the six months period as stated in the foregoing paragraph of this Section or in the event it does not elect to take delivery of its share of associated Natural Gas as provided for in Section 1 (c) above, all the available associated Natural Gas after taking into account the requirements under Section 1 (a) above shall be put at the disposal of NIOC, and no charge whatsoever shall be made thereupon.
  - (c) The additional facilities required for delivery to NIOC of such gas shall be installed and operated by BUSHCO for the account of NIOC.
4. In the case of discovery of a Natural Gas Field the following provisions shall apply:  
A Natural Gas Field shall be considered as having been evidenced when a First Commercial Gas Well, as defined in Section 5 of this Article has been completed. In such a case BUSHCO shall delineate the Gas Field.
  5. The First Commercial Gas Well means a gas well that has proved to be capable of producing by natural flow at the rate of one million cubic meters of gas per day during fifteen consecutive days.
  6. After delineation of a gas field the Parties shall contact each other with a view to finding out the possibilities for the development and export of gas from such field on the basis of the provisions set forth in this Agreement, in which case an arrangement shall be made between the Parties before the implementation of any development programme setting out the conditions governing the production including cost, prices and other relevant matters. Such an arrangement should be made not later than one year from the date of discovery of such a gas field. Should the development of a gas field not be considered as economically justified such a field shall be excluded from the Assigned Area and returned to First Party.

**ARTICLE 23**

*Currency Arrangements Between Parties*

First und Second Parties undertake to furnish each one half of the Currencies necessary for the operations of BUSHCO in the manner provided for in this Agreement.

**ARTICLE 24**

*Currency and Foreign Exchange*

1. First and Second Parties as well as BUSHCO shall in respect of all operations under this Agreement be subject to the foreign exchange rules and regulations applicable in Iran, subject however to the following provisions of this Article.

2. Income Tax and Stated Payments in respect of operations under this Agreement and any amounts falling due under Article 18, Sections 2 and 3 and Article 27 shall be payable in U.S. dollars or in Sterling or in such other currency as may be acceptable to the Central Bank of Iran. Except as otherwise provided herein all other payments due by First Party to BUSHCO or Second Party hereunder shall be made in Iranian Currency.
3. (a) The principal books and accounts of BUSHCO and Second Party shall be kept in U.S. dollars and for this purpose, conversion from Iranian Currency into U.S. dollars shall be made at the weighted average monthly rate of exchange at which Iranian currency was purchased for U.S. dollars by BUSHCO or Second Party during the relevant month or, if there was none during the relevant month, during nearest preceding month.  
(b) Any expenditure incurred or receipt realized in any currency other than U.S. dollars or Iranian Currency shall be converted into U.S. dollars, at the mean of New York buying and selling rates of exchange for the currency in question as certified by Central Bank of Iran at close of business on the day on which the expenditure was incurred or the receipt is realized.  
In the case of any day when no New York buying and selling rates are quoted, the rate to be used instead of the mean of the New York buying and selling rates of exchange shall be the mean of the last previous New York quotations for the foreign currency in question as certified by Central Bank of Iran. Where the foreign currency in question is not quoted in New York the rate to be used for the purpose aforesaid, instead of the mean of the New York buying and selling rates of exchange, shall be such rate as Central Bank of Iran considers to be appropriate having regard to transactions in that foreign currency.  
(c) At the end of each annual period any exchange differences on the books of BUSHCO or Second Party due to variations in the said rates of exchange shall be deducted from or added to, as the case may be, the entry(ies) concerned.
4. The Government shall ensure that BUSHCO or Second Party shall be able to purchase Iranian Currency which may be required for the operations, with U.S. dollars, or any other currency acceptable by Central Bank of Iran without discrimination at the commercial bank rate of exchange. The commercial bank rate of exchange means the bank rate of exchange used or available on the day in question for purchasing Iranian Currency with any non-Iranian Currency being the proceeds or any part of the proceeds of exporting any goods which constitute main items of export (in order of value) from Iran other than Crude Oil produced in Iran and products derived therefrom. If at any time there is more than one such bank rate, the rate that yields the greatest number of units of Iranian Currency shall be applied. The full value of any exchange certificate premium or similar device shall be reckoned as an integral part of the bank rate.
5. BUSHCO or Second Party shall not be bound to convert into Iranian Currency any part of their funds, except such funds as they consider necessary for meeting

*Iran*

the cost of the operations in Iran, which funds shall be converted into Iranian Currency through Authorized Banks.

6. During the term of this Agreement, and after the termination thereof, BUSHCO or Second Party shall not be restrained from freely retaining or disposing of any funds outside Iran, including such funds as may result from their activities in Iran, or restrained from maintaining foreign exchange accounts in Iran with the Central Bank of Iran and freely retaining or disposing of, including exporting, any funds standing to the credit thereof to the extent that such funds and assets have been imported by BUSHCO or Second Party into Iran under this Agreement or have been derived from their operations.
7. After the termination of this Agreement, the Government shall ensure that funds held by Second Party in Iranian Currency which have resulted from the operations under this Agreement, shall be convertible into U.S. dollars upon demand without discrimination at the generally available bank rate of exchange.
8. Non-Iranian Directors and non-Iranian employees of BUSHCO or Second Party and their families shall not be restrained from freely retaining or disposing of any of their funds outside Iran and shall be free to import such foreign funds into Iran as are required for their own needs and not for speculation. BUSHCO or Second Party and their employees shall not be allowed to effect in Iran exchange transactions of any kind through channels other than the Authorized Banks or such other channels as the Government shall approve.
9. Any non-Iranian Director or non-Iranian employee of BUSHCO or Second Party whose salary is paid in Rials shall be entitled freely to export from Iran during the course of each year and during the continuance of his employment in Iran, in the currency of the country of his habitual residence an amount not more than 50 % of his total salary for that year after the deduction of the Income Tax to be paid to the Government of Iran.
10. Any non-Iranian director or non-Iranian employee of BUSHCO or Second Party shall upon the termination of his services in Iran and departure from Iran, be entitled freely to export from Iran in the currency of the country of his habitual residence, an amount not exceeding 50 % of his last 24 months total salary after the deduction of the Income Tax paid to the Government of Iran.

**ARTICLE 25**

***Expense Obligation***

1. In respect of that quantity of Crude Oil which Second Party shall take from BUSHCO in accordance with Section 1 of Article 18 (hereinafter referred to as "Second Party's Share") Second Party shall pay to First Party a Stated Payment in conformity with the provisions set out below:
  - (a) 12.5 percent of the value, in U.S. dollars at applicable Posted Price, of Second Party's share as referred to above until a cumulative amount of 50,000,000 bbls. of Crude Oil of such share has been reached.

*Selected Documents — 1971*

- (b) Thereafter 14 percent of the value, in U.S. dollars at applicable Posted Price, of Second Party's share until a cumulative amount of 75,000,000 bbls. of Crude Oil of such share has been reached.
- (c) Thereafter 16 percent of the value at applicable Posted Price of Second Party's share after the amount of Crude Oil referred to in (b) above has been exceeded.

Payments as stated above shall be made as follows:

- (i) Within 15 days after the end of each month BUSHCO shall estimate the Stated Payment to be made by Second Party in respect of that month under the provisions of this Section and Second Party shall pay to First Party the amounts so estimated.
  - (ii) Within two months after the end of each year BUSHCO shall calculate the total Stated Payment for that year and any adjustment required as a result of such calculation shall be made.
- NIOC shall be entitled to elect to take Crude Oil (valued at the applicable Posted Price thereof) in lieu of all or part of the Stated Payment for Crude Oil referred to above.

2. On or before the expiration of thirty days after the Effective Date, Second Party shall pay to First Party, as a cash bonus, the sum of five million U.S. dollars (5,000,000) by depositing said amount in First Party's account in a bank in New York the number of said account and the name and address of said bank to be specified by First Party by written notice to Second Party not less than ten days before said payment is to be made.

In addition to the above cash bonus, Second Party shall pay to the National Iranian Oil Company, an amount of one million U.S. dollars (1,000,000) within 30 days from the Date of Discovery of Crude Oil in Commercial Quantities; and an amount of five million U.S. dollars (5,000,000) within 30 days of the date on which the cumulative production of Crude Oil shall have reached 100,000,000 barrels.

3. Subject to the provisions of Section 4 below, Second Party shall expend, through BUSHCO, a minimum of twenty-two million U.S. dollars (22,000,000) for the exploration operations under this Agreement during the first six annual periods following the Effective Date; such minimum amount to be allocated for expenditure during each of the six annual periods in accordance with the following table:

*Annual periods next following*

*The Effective Date*

*Amount*

First	U.S. dollars	3,000,000
Second	U.S. dollars	4,000,000
Third	U.S. dollars	6,000,000
Fourth	U.S. dollars	3,000,000
Fifth	U.S. dollars	3,000,000
Sixth	U.S. dollars	3,000,000

*Iran*

4. Within 30 days after the third annual period the total expenditures of Second Party for the exploration operations during the preceding three annual periods shall be determined by BUSHCO and certified by the auditors.
  - (a) If such expenditures are less than the amount allocated for expenditure in such period, 50 % of the difference shall be paid to First Party.
  - (b) If such expenditures exceed the amount allocated for expenditure in such period the excess shall be deducted from the amount allocated for expenditure during the succeeding three annual periods.
5. During the first three annual periods field exploration operations may not be suspended or stopped for any reason whatsoever except force majeure as provided for in this Agreement. But at the end of the said period and of each of the following three annual periods Second Party may, if it considers that the sub-surface conditions of the Assigned Area preclude a reasonable chance of discovering Petroleum in Commercial Quantities in the said Area, discontinue field exploration operations upon notification of such intention to First Party after proving that up to the date of such notification, the field exploration work planned to be carried out has in fact been carried out and that all of the minimum amounts allocated for expenditure during the period prior to such notification have been fully spent. However, in the event that there remains an unexpended balance, one half of such balance up to the date of notification shall be paid by Second Party to First Party. Second Party shall deliver to First Party on the Effective Date a letter of Guarantee from a bank acceptable to First Party for the sum of thirteen million U.S. dollars (13,000,000) being equal to Second Party's minimum exploration obligation for the first three annual periods which Guarantee shall be annually releasable in parts in proportion to that year's actual exploration expenditure.
6. If upon termination of the sixth annual period Petroleum shall have been discovered but the minimum amount prescribed in Section 2 hereof shall not have been fully spent, Second Party shall pay to First Party one half of the unexpended balance.
7. If in respect of any of the periods referred to in Sections 4, 5 and 6 of this Article, Second Party shall have been prevented or delayed by reasons of force majeure from carrying out intended operations so that the expenditure upon exploration operations in any such period is less than the amount prescribed for such period in the foregoing provisions of this Article, the relevant provisions of the Section in question shall be read and construed as relating to the period in question as extended by a period equal in length of time to the duration of the period during which Second Party was prevented or delayed as aforesaid from carrying out intended operations.
8. Second Party shall pay to First Party, in respect of the Assigned Area, where Commercial Production has been achieved in accordance with Section 2 of Article 29, in advance, the annual rental in U.S. dollars equivalent to the amounts as set out in the Column A below:

<i>Date of Payment</i>	<i>Column A</i>
	<i>Rental per sq. km.</i>
On the Date of Commencement of Commercial Production and each succeeding anniversary Date of Commercial Production up to and including fourth anniversary date from the Date of Commercial Production	U.S. dollars 400
On the fifth and each succeeding anniversary date up to and including ninth anniversary date	U.S. dollars 480
On the tenth and each succeeding anniversary date up to and including fourteenth anniversary date	U.S. dollars 600
On the fifteenth and each succeeding anniversary date up to and including nineteenth anniversary date	U.S. dollars 780
The rental payments effected in accordance with the provisions of this Article shall be included in Second Party's operating cost.	

## ARTICLE 26

### *Taxation*

1. First Party and Second Party shall with respect to their respective net incomes from the operations authorized under this Agreement be subject to taxation in accordance with the Iranian Income Tax Laws as they may prevail from time to time.
2. The Government of Iran guarantees that First Party and Second Party shall not be subject to rates of income tax or other provisions governing net income which are less favourable than those to which other companies, engaged in similar operations in Iran, which together produce or cause to be produced more than 50 % of Iranian Crude Oil, are subject.
3. BUSHCO acting solely as a non-profit making agent under this Agreement shall not be liable to taxation and similarly the Joint Structure relationship of the Parties shall not entail any tax obligation.
4. The income tax liability of First Party, and Second Party shall be assessed on the basis of their respective net incomes from the operations authorized by this Agreement, computed in accordance with accounting practices generally accepted in the petroleum industry in Iran.
5. The gross receipts of First Party, and Second Party in each taxation period shall equal the sum of:
  - (a) The value of each Party's share of the Crude Oil supplied by BUSHCO to First Party for Internal Consumption in Iran, computed at the price established in accordance with Article 21 hereof; and payments received for Natural Gas delivered under Article 22, Section 4, if any; and,
  - (b) In the case of First Party, in respect of sales to Second Party in accordance with Section 2 of Article 18, the amount determined in accordance with the said Section; and,

*Iran*

- (c) The value of all Crude Oil otherwise exported, by either Party, which value shall be computed at the applicable Posted Price on the date of export of the Crude Oil concerned.
- 6. Each Party, in determining its net income shall only be entitled to subtract from its share of gross receipts its share of costs, expenses and charges incurred under this Agreement, as set forth hereunder provided that they are supported by documents or records:
  - (a) Each Party's share of all costs and expenses incurred by BUSHCO necessarily and solely in connection with the carrying out of the operations authorized by this Agreement including administrative overhead and establishment expenses, contributions and rents or other charges for the use of any property, costs of drilling wells not productive of Petroleum in commercial quantities, cost of goods and services, expenditures made for ground, aerial and marine surveys, and for drilling, cleaning, deepening or completion of wells or the preparation therefor, except insofar as such costs and expenditures have been capitalized and an amortization allowance is subtracted on that account.
  - (b) An amount in each year for depreciation, obsolescence, exhaustion and depletion of capital expenditure made by BUSHCO in connection with operations in Iran calculated at a rate of 10 percent per annum on the original cost thereof;
  - (c) The unapplied part of operating losses of each Party sustained in, and carried forward from previous Taxation Periods, provided that such carrying forward is not more than ten years from the Taxation Period during which such losses originated;
  - (d) Each Party's share of losses sustained by the carrying out of operations in Iran and not compensated for by insurance or otherwise, including bad debts, losses resulting from claims for damages arising out of operations in Iran, and losses resulting from damage to, or destruction or loss of, any property used in connection with the said operations in Iran; and
  - (e) An amount for each Party in each year in respect of amortization of all exploration expenditure incurred in accordance with Article 25, Section 3 equal to one tenth of one half of the said expenditure.
- 7. Second Party in addition to the above shall also be entitled to subtract from its gross receipts during each Taxation Period:
  - (a) An amount equal to 10 % of the total Bonus paid to First Party under this Agreement, until said Bonus has been fully amortized;
  - (b) The amount of Stated Payment, paid in cash or kind under Article 25 of this Agreement;
  - (c) The amounts relating to the Rental payment as provided for in Article 25 of this Agreement.
  - (d) Any amount paid to First Party for the purchase of its Crude Oil under Section 2 of Article 18.
- 8. Each Party shall separately file its own tax statement and pay any tax due.

## ARTICLE 27

### *Limit of Taxation*

Except for the following:

1. Income tax payments to be made to Iran in accordance with Iranian Income Tax Law;
  2. Customs and import duties as applicable pursuant to Article 28 of this Agreement;
  3. Stated Payment and any other payments to be made to First Party in accordance with this Agreement;
  4. Payments to the Iranian Government of taxes required to be withheld with respect to compensations and salaries paid to personnel;
  5. Payment of taxes required to be withheld in respect of payments to contractors or agents for works carried out under this Agreement;
  6. Non-discriminatory charges and fees for services rendered by governmental authorities on request or to the public generally such as tolls, water rates, municipal and sanitary charges, port dues payable by vessels, etc.;
  7. Non-discriminatory taxes and fees of general application such as documentary stamp taxes, civil and commercial registry fees and patent and copy-right fees;
- no payment of tax in any form whatsoever shall be required to be made to any governmental authority whether central or local and no taxes or duties shall be imposed on the exports of Petroleum by either Party nor on dividends paid by them from any income arising as a result of their operations under this Agreement.

## ARTICLE 28

### *Imports and Customs*

1. All machinery, equipment, craft apparatus, tools, instruments, spare parts, materials, timber, chemicals, blending materials and additives, automotive equipment and other vehicles, aircraft, building materials of all descriptions, steelworks, office fittings, equipment and furniture, ship's stores, provisions, protective clothing and equipment, instructional equipment, petroleum products not available in Iran and all other articles required exclusively for the efficient and economical conduct and performance of the basic technical operations and functions of BUSHCO shall be imported without any licence and exempt from import under the name of BUSHCO free of any customs duties, and taxes. The foregoing articles shall include medical, surgical and hospital supplies, medical products and drugs and equipment, furniture and instruments required for the installation and operation of hospitals and dispensaries.
2. BUSHCO shall with the approval of NIOC have the right to re-export exempt from any export duties and taxes any of the articles it has imported for temporary use.

*Iran*

3. BUSHCO shall also have the right, subject to approval by NIOC, to sell in Iran such articles as shall have been temporarily imported, it being understood that in any such case it will be the responsibility of the buyer to pay any applicable duties and to comply with any formalities prescribed by the current regulations, and to furnish BUSHCO with the necessary clearance documents.
4. Such articles as may be considered appropriate for the use or consumption of the employees (and their respective dependents) of BUSHCO may be imported subject to the relevant rules and regulations in force in Iran and upon the payment of any import and customs duties and other taxes generally applicable at the time of importation.
5. BUSHCO undertakes to give preference, in the acquisition of equipment and supplies, to articles made or produced in Iran provided the said articles as compared to similar articles of foreign origin can be acquired on equally advantageous conditions with due regard to their quality, their price, their availability at the time and in the quantities required, and their suitability for the purposes for which they are intended. In comparing the prices of imported articles with that of articles made or produced in Iran account shall be taken of freight and of any customs duty and taxes payable under this Agreement on the imported articles.
6. All imports and exports under this Agreement shall be subject to customs documentation and formalities (but not to any payment from which they are exempt under the relevant provisions of this Agreement) not more onerous than those generally applicable.

**ARTICLE 29**

*Term of Agreement*

1. The term of this Agreement shall extend to twenty years from the Date of Commencement of Commercial Production as defined below.
2. The Date of Commencement of Commercial Production shall be the date on which there shall have been delivered as regular exports 100,000 cubic meters of Crude Oil from the Assigned Area.

**ARTICLE 30**

*Termination of Agreement and Liquidation of Assets*

Upon expiry or termination of this Agreement BUSHCO shall be liquidated and all assets created under this Agreement shall be transferred to NIOC in accordance with the following provisions:

1. All Fixed Assets shall be transferred free of charge.
2. All fully depreciated movable assets shall be transferred free of charge.

3. All movable assets not fully depreciated shall be transferred against payment to Second Party by NIOC of 50% of remaining book value of such movable assets.

## ARTICLE 31

### *Transfers*

1. Second Party may at any time and from time to time transfer all or any part of the rights acquired and the obligations undertaken by it under this Agreement to:
  - (a) Any company or companies controlling Second Party.
  - (b) Any company or companies controlled by Second Party.
  - (c) Any company or companies controlled by any company or companies specified in (a) or (b) above, provided that for the purpose of this Section control of a company shall mean direct or indirect ownership of all of the stock of such company and the transferee is a company satisfying Article 4 of the Petroleum Act. Such transfer shall not in any way free the transferring Party from the obligations undertaken by it under this Agreement.
2. Any transfer by Second Party otherwise than as authorized under Section 1 above, shall require the prior written approval of First Party, which before granting the said approval shall obtain the confirmation of the Council of Ministers and approval of the Legislature.
3. Any merger or amalgamation by Second Party or the transferee thereto, shall require the written approval of First Party, which before granting the said approval shall obtain the confirmation of the Council of Ministers.
4. Any transfer made under this Article shall be free from all transfer taxes or other duties, taxes, or other payments to the Iranian Government or any subdivision thereof.
5. Any person who becomes a Party to this Agreement by virtue of any transfer, merger or amalgamation under this present Article shall assume all the obligations undertaken by Second Party hereunder.

## ARTICLE 32

### *Force Majeure*

1. No failure or omission by either Party to carry out or to perform any of the terms or conditions of this Agreement shall give the other Party a claim against such Party or be deemed a breach of this Agreement, if and to the extent that such failure or omission arises from Force Majeure. Force Majeure includes but is not limited to strikes, lockouts, labour disturbances, acts of God, unavoidable accidents, acts of war (declared or undeclared) or any other matter reasonably beyond the control of the Parties to this Agreement.

*Iran*

2. More particularly and without limiting the generality of the foregoing, where any Force Majeure occurrence beyond the reasonable control of either Party renders impossible or delays the performance of any obligation or the exercise of any right under this Agreement, then the period whereby such performance or such exercise is delayed shall be added to any relevant period fixed by this Agreement.
3. Nothing contained in this Article shall prevent the Parties from referring to arbitration under Article 36 hereafter the question of whether or not this Agreement should be dissolved by total impossibility of performance.

**ARTICLE 33**

*Guarantee of Performance and Continuity*

The Ministry of Finance may take any action or give any consent on behalf of the Iranian Government which may be necessary or convenient under or in connection with this Agreement or for its better implementation and any action so taken or consent so given shall be binding upon the Government. All Iranian Authorities shall implement all such instructions as the Ministry of Finance shall give them in connection with the execution and administration of this Agreement and such Authorities shall have full power and authority to do so. If the Ministry of Finance should for any reason no longer exercise its powers and authority under this Article, such powers and authority shall be exercised by such other Ministry or agency as the Council of Ministers shall designate.

**ARTICLE 34**

*Conciliation*

1. If any dispute arises out of the execution or interpretation of this Agreement, the Parties may agree that the matter shall be referred to a mixed conciliation committee composed of four members, two nominated by each Party, whose duty shall be to seek a friendly solution. The conciliation committee, after having heard the representatives of the Parties, shall give a ruling within three months from the date on which the dispute was referred to it. The ruling, in order to be binding, must be unanimous.
2. If the Parties do not agree upon the reference of a dispute to a conciliation committee, or if a dispute is referred to the said Committee but not settled, the sole method of determining it shall be arbitration in accordance with Article 35.

**ARTICLE 35**

*Arbitration*

1. Any dispute arising from the execution or interpretation of the provisions of this Agreement shall be settled by an Arbitration Board consisting of three arbitrators.

*Selected Documents — 1971*

Each of the Parties shall appoint an arbitrator and the two arbitrators before proceeding to arbitration shall appoint a third arbitrator who shall be the President of the Arbitration Board.

2. If one of the Parties does not appoint its arbitrator, or does not advise the other Party of the appointment made by it within two months of the institution of the proceedings, the other party shall have the right to apply to the Governor of the Central Bank of Iran to appoint the second Arbitrator.
3. If the two arbitrators cannot within two months from the date of the appointment of the Second arbitrator agree on the person of the third arbitrator, the latter shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the Governor of the Central Bank of Iran.
4. Any arbitrators appointed by the said Governor under Sections 2 and 3 above should not be closely connected with nor have been in the public service of, nor be a national of Iran nor of U.S.A.
5. The arbitrators shall notify their acceptance of the nomination to both Parties (and to the Governor of the Central Bank of Iran if they shall have been appointed by the said Governor) within thirty days of receiving notice of their nomination. Failing such notification, it shall be assumed that they have refused the nomination and a new appointment shall be made in accordance with the same procedure.
6. The award which shall be final and binding may be given by a majority of the Arbitration Board. The Parties undertake to comply with it in good faith and either Party may seek execution of the award in any Court having jurisdiction over the party against whom the execution is sought.
7. The place of arbitration shall be Tehran, Iran unless the Parties agree upon an alternative site.
8. The Parties shall extend to the Arbitration Board all facilities (including access to the Petroleum operation) for obtaining any information required for the proper determination of the dispute. The absence or default of any Party to an arbitration shall not be permitted to prevent or hinder the arbitration procedure in any or all of its stages.
9. Pending the issue of decision or award, the operations or activities which have given rise to the arbitration need not be discontinued. In case the decision or award recognizes that the complaint was justified, provision may be made therein for such reparation as may appropriately be made in favour of the complainant.
10. The cost of an Arbitration shall be awarded at the discretion of the Arbitration Board.
11. If for any reason a member of the Arbitration Board after having accepted the functions placed upon him is unable or unwilling to enter upon or to complete the determination of a dispute, then unless the Parties otherwise agree, either Party may request the Governor of the Central Bank of Iran to appoint a substitute to the said member, in accordance with the regulations laid down in this Article.

*Iran*

12. Wherever appropriate, decisions and awards hereunder shall specify a time for compliance therewith.
13. Either Party may within fifteen days of the date of the communication of the decision or award to the Parties, request the Arbitration Board who gave the original decision or award, to interpret the same. Such a request shall not affect the validity of the decision or award. Any such interpretation shall be given within one month of the date on which it was requested and the execution of the decision or award shall be suspended until the interpretation is given or the expiry of the said month, whichever first occurs.
14. The provisions of this Agreement relating to arbitration shall continue in force notwithstanding the termination of this Agreement.
15. Should the Parties reach an agreement on the issue submitted to the arbitration prior to the issuance of the award by the Arbitration Board, such agreement shall be recorded in the form of an "arbitral award made by consent of the Parties" and the mission of the Arbitration Board shall thus terminate.

**ARTICLE 36**

*Sanctions*

1. In case of failure by Second Party to pay the Bonus and Rental laid down in Article 25, Sections 2 and 8 respectively on the dates provided for in this Agreement, First Party shall address a written notice of such failure to Second Party. If within one month of the due date, Second Party shall not have made the payment in question increased at a rate equal to twice the highest rate of interest enforced by the Central Bank of Iran in respect of the period of delay, First Party shall be entitled to terminate this Agreement.
2. In respect of the Joint Structure's obligation as laid down in Article 3 to relinquish its rights to parts of the Assigned Area, if Second Party fails within the specified time limits to notify BUSHCO of its views concerning the areas to be relinquished, then First Party shall at its own discretion determine the parts to be relinquished. Such determination shall be final, and with effect from the date of notice thereof such parts as shall have been determined by First Party shall be regarded as excluded from the Assigned Area.
3. In the case of failure by Second Party to carry out the drilling obligation undertaken under Section 2 of Article 15 Second Party shall forfeit out of the Guarantee referred to in Article 25, Section 5 a sum of three hundred thousand U.S. dollars (300,000) per month of delay not excused by force majeure. If within a period of six months from the specified time limit the obligation shall still be outstanding, First Party shall be entitled to terminate this Agreement. First Party shall also have the right to confiscate from the Guarantee as per Article 25, Section 5 all unexpended exploration expenditure obligation pertaining to the first three annual periods after the Effective Date.

*Selected Documents — 1971*

4. The provisions of Article 32 relating to force majeure shall apply to the cases envisaged by this Article.

**ARTICLE 37**

*NIOC's Prerogatives*

NIOC acting on behalf of the Imperial Government of Iran shall exercise the following measures of control:

1. NIOC shall determine methods and means of measurement of Petroleum produced and/or exported, under the provisions of this Agreement.  
Petroleum exported shall be verified and certified by NIOC for fiscalization.
2. Second Party shall provide all particulars which may be required by NIOC in respect of Petroleum exported by it.
3. BUSHCO shall comply with principles of conservation of natural resources and in the conduct of its operations always shall be mindful of the best interests of Iran.  
NIOC shall exercise all necessary controls for supervision required to ensure full compliance with such principles.
4. NIOC shall be authorized to grant certain discounts in cases where Second Party has purchased any part of First Party's 50 % share of Crude Oil under Section 2 of Article 18 of this Agreement. Such discount however shall in no circumstances apply to Second Party's own 50 % share of Crude Oil, which shall be lifted at full Posted Price applicable to such Crude Oil.  
The amount of discount in each case shall be determined with a view to ensuring that no actual loss is sustained by Second Party in respect of its purchases of First Party's share of Crude Oil.
5. NIOC in addition to the deliberations of the Audit Board and notwithstanding various provisions of this Agreement shall have complete access to the books and accounts of BUSHCO.

**ARTICLE 38**

*Applicable Law*

This Agreement shall be governed by and interpreted according to the Laws of Iran, and where this Agreement is silent, the provisions of the Petroleum Act shall apply.

**ARTICLE 39**

*Language of Text*

The Persian and English texts of this Agreement are both valid. In case of dispute which is referred to arbitration, both texts shall be laid before the Arbitration Board who shall interpret the intention of the Parties from both texts.

*Iran*

ARTICLE 40

*Notices*

All notices required or permitted hereunder shall be in writing and shall be deemed to have been properly given and delivered to a Party when delivered in person to an authorized representative of that Party, or when sent by mail or telegram or cable (confirmed by mail) to that Party at its address hereinafter specified.

NATIONAL IRANIAN OIL COMPANY  
AVENUE TAKHT-DJAMSHID  
TEHRAN  
IRAN

AMERADA HESS CORPORATION  
51 WEST 51ST STREET  
NEW YORK  
N.Y. 10019  
U.S.A.

Executed and delivered in Teheran on 27th July, 1971.

NATIONAL IRANIAN  
OIL COMPANY

By

Chairman of the Board and  
Managing Director

AMERADA HESS CORPORATION

By

Attorney-in-fact

SCHEDULE A  
BOUNDARY OF THE ASSIGNED AREA OF BUSHCO

The Assigned Area, as referred to in Article 3 of the Agreement, lies in the Petroleum District (1) of the Iranian Petroleum Districts, and is part of the Iranian Territorial Waters and Continental Shelf together with any Islands therein. The boundary of the Assigned Area is described as follows:

Starting from Point (1) situated on the three-mile territorial water line from the lowest tide line of the mainland with approximate geographical coordinates.

*Selected Documents — 1971*

28° 59' 42" North Latitude  
50° 46' 06" East Longitude

thence in a generally southeasterly direction on the line coincident with said three-mile territorial water line to the point (2) with approximate geographical coordinates:

28° 44' 18" North Latitude  
51° 00' 00" East Longitude

thence Southwesterly on a straight line to the point (3) with approximate geographical coordinates:

28° 10' 48" North Latitude  
50° 03' 54" East Longitude

thence Northwesterly on a straight line to the point (4) with approximate geographical coordinates:

28° 17' 36" North Latitude  
49° 56' 12" East Longitude

thence Northwesterly on a straight line to the point (5) with approximate geographical coordinates:

28° 21' 00" North Latitude  
49° 50' 54" East Longitude

thence Northwesterly on a straight line to the point (6) with approximate geographical coordinates:

28° 24' 42" North Latitude  
49° 47' 48" East Longitude

thence Northeasterly on a straight line to the point (7) with approximate geographical coordinates:

28° 48' 36" North Latitude  
50° 27' 42" East Longitude

thence Southeasterly on a straight line to the point (8) with approximate geographical coordinates:

28° 44' 54" North Latitude  
50° 31' 00" East Longitude

thence Northeasterly on a straight line to the point (9) with approximate geographical coordinates:

28° 47' 48" North Latitude  
50° 40' 00" East Longitude

thence Northwesterly on a straight line to the point (10) with approximate geographical coordinates:

28° 53' 36" North Latitude  
50° 36' 06" East Longitude

thence Northeasterly on a straight line to point (1), the point of beginning.

*Iran*

**JOINT STRUCTURE AGREEMENT**

**Between**

**NATIONAL IRANIAN OIL COMPANY**

**and**

**MOBIL OIL CORPORATION**

THIS AGREEMENT is concluded between the National Iranian Oil Company hereinafter referred to as First Party and Mobil Oil Corporation a corporation organized and existing under the laws of the State of New York, United States of America hereinafter referred to as Second Party.

WHEREAS First Party desires to expand the production and export of Iranian Petroleum, thereby increasing the benefits accruing to Iran, and to accomplish the said results with all possible expedition;

WHEREAS First Party is authorized by the Petroleum Act of July 31st 1957, to enter into an Agreement of this nature;

WHEREAS Second Party has the capital, necessary for carrying out the operations hereinafter specified, and in particular is capable of providing the requisite outlets to ensure the marketing of such Petroleum as may be discovered and produced as a result of the said operations;

WHEREAS the Parties have technical competence and management skills necessary for carrying out the operations hereinafter specified;

WHEREAS the Parties intend that the provisions of this Agreement shall be carried out in a spirit of good faith and good will.

NOW, THEREFORE, it is hereby agreed between First Party and Second Party, as follows:

**ARTICLE 1**

*Definitions*

Unless the context otherwise requires, the following definitions of certain terms herein-after used in this Agreement shall apply for the purpose of this Agreement.

- A. "Agreement" means this instrument and the Schedule attached hereto.
- B. "First Party" means the National Iranian Oil Company or any successor thereto.
- C. "Second Party" means Mobil Oil Corporation or any person to whom a transfer is made in accordance with the provisions of this Agreement.
- D. "Petroleum Act" means the Petroleum Act of July 31, 1957.

*Selected Documents — 1971*

- E. "Petroleum" means crude oil and natural gas.
- F. "Crude Oil" means crude petroleum, asphalt and all liquid hydrocarbons in their natural state or obtainable from natural gas produced in association with crude oil.
- G. "Natural Gas" means wet gas, dry gas, all other gaseous hydrocarbons produced from gas wells or the residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- H. "Internal Consumption in Iran" means Petroleum and petroleum products or incidental substances sold within Iran for the purpose of consumption in contrast to their export from Iran as cargo lot.
- I. "Posted Price" means the f.o.b. price published for each gravity of Crude Oil offered for sale to buyers generally for export at the relevant point of export, which price shall be a price established on the basis of prevailing posted prices for Crude Oil in the Persian Gulf with due regard to geographical location and API gravity.
- J. "Petroleum Operations" means all the functions described in Section 1 of Article 9 of this Agreement.
- K. "Cubic Meter" means one cubic meter at sixty degrees Fahrenheit and at normal atmospheric pressure.
- L. "Effective Date" means the date on which the Act approving this Agreement has received the royal assent and for the purposes of this Agreement any reference in the Petroleum Act to this date of the Agreement shall be understood to be a reference to the Effective Date.
- M. "Land" means any land whether submerged or not.
- N. "Fixed Assets" means any asset erected, installed or constructed, permanently affixed and to be used directly in the conduct of operations hereunder.
- O. "Taxation Period" means a calendar year of twelve months commencing on January 1st of each year respectively or such other period as may be agreed to between the Parties and approved by the Ministry of Finance of Iran.
- P. "Assigned Area" means the area described in Schedule A or the areas remaining after reductions therefrom as provided for in Article 3 of this Agreement.
- Q. "Barrel" means a barrel of 42 standard U.S. gallons of 60 degrees Fahrenheit and at normal atmospheric pressure.
- R. "Date of Commencement of Commercial Production" means the date defined under Section (2) of Article 29 of this Agreement.
- S. The Unit Production Cost of each party to be determined by Hormoz Petroleum Company as referred to in Section 2(a) of Article 17, Section 2(b) of Article 18 and Section 3 of Article 21 shall include and be limited to a per unit allocation of total exploration costs incurred by Second Party through HOPECO plus the per unit allocation of all the costs of Joint Structure through HOPECO, established in accordance with good oil accounting principles as agreed from time to time,

*Iran*

between the two parties, but shall not include any proportions of Rentals, Cash Bonuses, Stated Payments, etc., as paid by Second Party.

Rentals, Cash Bonuses and Stated Payment shall be included by Second Party only, in its cost under Section 7 of Article 26.

**ARTICLE 2**

*Establishment of Joint Structure*

1. First Party and Second Party do hereby mutually enter into a Joint Structure relationship, which as contemplated by the Petroleum Act, does not constitute a separate juridical personality.
2. Except as otherwise provided herein and in the Petroleum Act, the Parties hereto shall participate equally in and under said Joint Structure relationship. First Party and Second Party sometimes in this Agreement are referred to collectively as "the Parties hereto" or as "the Joint Structure".
3. All equipment, machinery, installations and other property purchased or obtained hereunder at the expense of the joint account of the Parties hereto shall be owned, and all costs and expenses required for operations hereunder (except those costs and expenses which Second Party alone is required to contribute and pay for exploratory operations) shall be contributed and paid, by the Parties hereto fifty percent (50 %) by First Party and fifty percent (50 %) by Second Party. Petroleum produced from the Assigned Area shall be owned fifty percent (50 %) by First Party and fifty percent (50 %) by Second Party. Title to Second Party's share of petroleum shall pass at wellhead. Each Party shall have the right to call for the delivery in kind, to it or its nominee, of its share of the Petroleum as described in this Agreement.

**ARTICLE 3**

*Assigned Area and Relinquishment*

1. An Area as described in Schedule A hereof is assigned to the Joint Structure to exercise therein the operations authorized by this Agreement through the agency of Hormoz Petroleum Company, a corporation to be formed by the Parties hereto, as hereinafter provided in Article 5 hereof.
2. Not later than the end of the third year from the Effective Date, the total Assigned Area mentioned in Section 1 of this Article shall be reduced by not less than 25 %. Thereafter within a maximum further period of two years, the Assigned Area shall be reduced again, if necessary, so that the total Assigned Area retained shall not exceed 50 % of the original Assigned Area.
3. The Area excluded to arrive at the reduction prescribed in Section 2 of this Article shall consist of blocks of not less than two hundred square kilometers each with an

*Selected Documents — 1971*

average length of not more than six times their average width, or if not convenient, in such shape and size as the First Party shall consider appropriate.

4. Not less than three months in advance of the return of parts of the Assigned Area as provided for in Section 2 of this Article, Hormoz Petroleum Company shall furnish to NIOC a description of the boundaries of the part to be returned. In determining the parts to be returned, the guiding principle shall be that the least prospective areas, in the light of the then available information shall be returned first.
5. If at the end of the sixth year from the Effective Date commercial production within the meaning of this Agreement shall not have been achieved in the Assigned Area, the same shall be returned to First Party.
6. If at the end of the sixth year from the Effective Date commercial production has been achieved, only those parts of the Assigned Area on which commercially exploitable fields shall have been discovered shall remain at the disposal of the Joint Structure. Such part of the Assigned Area shall each be defined by a polygon having such definite geographical co-ordinates as determined by Hormoz Petroleum Company and approved by NIOC. The Area so defined shall be that of a polygon enclosing the lowest structural contour lines, or the limits of the area capable of producing Petroleum, as supported by all relevant data and which lies within the Assigned Area, whichever the case may be.

**ARTICLE 4**

*Registration of Second Party*

Within thirty days after the Effective Date, the Second Party, or its transferee designated under Article 31 shall file an application for registration with the Iranian Registration Department in compliance with Iranian Law and regulations concerning the Registration of Companies.

**ARTICLE 5**

*Registration of Hormoz Petroleum Company*

1. Within sixty days after the Effective Date of this Agreement, the Parties hereto shall constitute and register with the Iranian Registration Department, a Company which shall be a non-profit Company and which shall carry out, for the joint account as agent of both Parties, the Operations herein specified; it being understood, however, that in carrying out and performing the exploratory operations herein made binding on Second Party, said Company shall act as agent of Second Party only. The name of the said Company shall be Hormoz Petroleum Company and shall be referred to hereinafter as HOPECO. The nationality of HOPECO shall be Iranian and it shall be subject to the provisions of the Iranian Commercial Code in respect of any matter not provided for in its Statutes.

*Iran*

2. HOPECO shall perform and carry out all operations required or permitted hereunder; and the Parties hereto shall pay all the costs and expenses required for such operations, jointly or individually as required by the terms of this Agreement, through the agency of HOPECO, all contracts shall be made in the name of HOPECO.
3. The cost and expenses required for equipping, staffing maintaining and operating the office or offices of HOPECO shall be allocated on a fair and equitable basis, in accordance with good accounting practices, between the Parties hereto respectively according to the operation or operations from time to time being served; and the Parties hereto shall bear and pay their respectively allocated shares thereof. Without limiting the generality of the foregoing, the costs and expenses referred to in this Section 3 shall include salaries and wages of employees of HOPECO and of employees lent on a temporary, part-time or permanent basis by one of the Parties hereto to HOPECO, the cost of employee vacations, sickness, medical, hospital, pension, thrift, savings and other employees benefit plans to HOPECO or to the Party hereto lending such employees, according to the conditions and rates prevailing in the oil industry generally in Iran for both Iranian and expatriate employees, the amounts paid to contractors and the amounts charged by either or both of the Parties hereto for the services of any of their respective departments, said services to be performed only under written contracts with HOPECO with the approval of both Parties hereto.

**ARTICLE 6**

*Board of Directors and Auditors*

1. Each of the Parties hereto shall subscribe and pay for half of the capital of HOPECO. The equal participation of the Parties hereto in HOPECO shall be reflected in the management of the said Company. Accordingly half of the members of the Company's Board of Directors shall be nominated by First Party and half by Second Party. The selection of a Chairman, a Vice-Chairman, Managing Director and Deputy Managing Director from among the Members of the Board shall be effected in the manner laid down in the Company's Statutes, it being understood that, during the 6 year exploration period the said Chairman and Deputy Managing Director shall be Directors nominated by First Party and the said Vice Chairman and Managing Director shall be directors nominated by Second Party.  
It is further understood that for a period of five years after the 6 year exploration period, the Vice-Chairman and the Managing Director shall be nominated by First Party and the Chairman and the Deputy Managing Director shall be nominated by the Second Party.  
This process of nomination will be reversed alternately for every period of five years for the duration of this Agreement.
2. The Audit Board shall consist of two auditors one to be nominated by each Party.

## ARTICLE 7

### *Capital of the Company*

1. The initial authorized capital of HOPECO shall be Rials 2,500,000. This capital may be increased from time to time, as necessary, in the manner prescribed in HOPECO Statutes.
2. Each party will provide fifty percent of the initial capital mentioned above, as well as of any increases thereto.

## ARTICLE 8

### *Voting at General Meetings*

At the general meetings of HOPECO which will be presided over by the Chairman of the Board of Directors, each Partner shall have one vote. In the case of an equality of voting on any issue to be decided at any such meeting, the issue in question shall be deferred once and once only for further consideration at a general meeting to be held one month from the date of the first meeting, or such later time as the Parties may agree.

If after the adoption of the above procedure there is still an equality of voting, the matter shall be referred to the Parties for resolution.

## ARTICLE 9

### *Authorized Operations*

1. The operations authorized to be carried out by the Parties through HOPECO under this Agreement include:
  - (a) The exploration for Petroleum in the Assigned Area by geological, geophysical and other methods, including drilling for Petroleum, the production of such petroleum and all other functions normally associated with or reasonably incidental to exploration and exploitation operations.
  - (b) The conveyance of petroleum produced under this Agreement from fields to seaboard and the storing of petroleum and the delivery of Petroleum produced from the Assigned Area by any means including loading on board ships, and all other functions normally associated with storage and transportation or reasonably incidental thereto.
2. It is understood that the reclaiming of lands and creation of islands and the construction of railway lines, ports, telephone, telegraph, wireless services and aviation facilities and the use thereof shall be subject to the prior consent in writing of the Government, which consent shall be sought through the NIOC and NIOC shall endeavour to obtain such consent within a reasonable period of time and without undue delay.

*Iran*

ARTICLE 10

*Contractors*

In order to expedite the performance of operations authorized hereunder, HOPECO without in any way diminishing the responsibilities of the Parties to Iran, may engage contractors for performing any part of the Authorized Operations provided that:

- (a) NIOC receives a copy of all such contracts.
- (b) Such contractors are selected on a prudent business judgement with due regard to the provisions of Paragraph (c) hereafter, and that under comparable terms and conditions priority is given to Iranian contractors.
- (c) HOPECO shall always make every effort to ensure that the most economically advantageous cost for operations is obtained.

ARTICLE 11

*Second Party's Obligations*

- 1. Second Party, acting through HOPECO, shall be subject to the following obligations with respect to exploratory operations including exploration drilling:
  - (a) to exert its utmost efforts to explore the Assigned Area to the maximum extent consistent with good petroleum industry practice;
  - (b) to submit to First Party a detailed progress report on the work done as well as a comprehensive final report;
  - (c) to carry the entire burden of the expenses of exploration, namely First Party's share as well as its own, any cost of utilization of land being part of such expenses;
  - (d) to observe the provisions of Sections 2, 3, 5, 7 and 8 of Article 12.
- 2. Second Party shall in consultation with First Party prepare in respect of each calendar year, exploration programmes and budgets for the Assigned Area in such a manner as to provide for and ensure the implementation of at least the minimum obligations set forth in this Agreement. In preparing such programmes and budgets Second Party shall consult with First Party and shall take under consideration the views expressed and proposals made by First Party. Such consultation shall take place not later than September 15th each year.
- 3. The programmes and budgets stipulated in Section 2 above shall be furnished to First Party in respect of each calendar year on or before October 31st of the preceding year. Any revision to the said programmes and budgets shall only be made after prior consultation with NIOC.
- 4. After establishment of the first Commercial Field the exploration programmes and budgets for each year shall be prepared by Second Party and submitted to First Party for its approval.

*Selected Documents — 1971*

5. When the daily rate of production of Crude Oil has reached 100,000 barrels for thirty consecutive days, Second Party undertakes to discuss and decide with First Party the construction of oil refinery or other plants for treatment of Petroleum produced from the Assigned Area.

**ARTICLE 12**

*Hormoz Petroleum Company's Obligations*

The Parties hereto, acting through HOPECO, at their joint cost and expense shall be subject to the following obligations:

1. To exert their utmost efforts to develop any discovered field(s) to the maximum extent with all possible speed consistent with good petroleum industry practice; and in particular to observe sound technical and engineering practices in conserving the deposits of hydrocarbons, and in general in carrying out the operations authorized under this Agreement.
2. To maintain full records of all technical operations performed under this Agreement.
3. To keep in Iran full and correct accounts of their operations in such a manner as to present a fair, clear and accurate record of the cost of such operations, and for this purpose to adopt a suitable accounting procedure to be agreed upon by both Parties and revised from time to time in the light of future developments.
4. To enable authorized representatives of each Party to inspect at all reasonable times the operations and accounting thereof carried out under this Agreement, and all measuring apparatus and means of measurement and testing. All expenses except salaries, relating to such inspection shall be incurred by HOPECO and shall be included in its operating costs.
5. To minimize the employment of foreign personnel by ensuring that foreign personnel are engaged only to occupy positions for which Iranians having the requisite and comparable qualifications and experience have not been found.
6. To prepare plans and programmes for industrial and technical training and education, and to co-operate in their execution with a view to ensuring the speedy and progressive reduction of foreign personnel in such manner that upon expiration of eight years from the Effective Date the number of foreign nationals employed by HOPECO shall not exceed two percent of the total salaried staff employed by it, and the top executive positions occupied by non-Iranians shall not exceed 30 % of the total of top executive positions available.
7. To be always mindful, in the conduct of their operations, of the rights and interests of Iran.
8. To ensure that each of them shall obtain, through the medium of HOPECO as agent, as and when it may so require and within a reasonable time, any and all information in the form of accurate copies of maps, sections, and reports relating to topographical, geological, geophysical, drilling, producing, engineering and other

*Iran*

similar matters relating to the operations authorized under this Agreement as well as all important scientific, reservoir engineering and technical data resulting from the said operations. Any information supplied by HOPECO to one of the Parties hereto shall be submitted simultaneously in exact duplicate to the other Party.

9. HOPECO in establishing the medical, pension savings and other similar plans from which its permanent employees and their dependents may benefit, shall conform to the related Iranian Law and Regulations and shall at all times conform to the practices prevailing in the Iranian Oil Industry.
10. To insure avoidance of unnecessary investment and to expedite the implementation of the provisions of this Agreement, if surplus capacity in pipelines, loading and other facilities and ancillary services exists in the installations of any oil company operating in Iran, the Parties to this Agreement must, before embarking on their own development and installation of similar facilities, seriously examine the possibilities of utilization and/or sharing of above services and facilities of such other companies operating in Iran. Terms and conditions for right of use and/or sharing of these services and facilities will be agreed upon through direct negotiation between the parties concerned and/or through, NIOC's good offices.

**ARTICLE 13**

*Confidential Nature of Information*

Any plans, maps, sections, reports, records, scientific and technical data, and any other similar information relating to the technical operations under this Agreement shall be treated by First Party, Second Party, and HOPECO as confidential in the sense that their contents or effect shall not be disclosed by either Party or by HOPECO without the consent of the Parties hereto, such consent not to be unreasonably withheld or delayed.

**ARTICLE 14**

*Land, Water and Servitudes*

Lands, water and servitudes reasonably required for the purpose of the operations hereunder shall at the request of HOPECO be acquired by the NIOC and put at the disposal of HOPECO.

The acquisition of lands, water and servitudes shall be effected in accordance with the procedure and subject to the conditions described in NIOC Statutes.

The purchase prices or rents paid to acquire such lands, water and servitudes together with the expenditures incurred in connection therewith, shall be reimbursed to NIOC through HOPECO and be included in the exploration or exploitation expenditures as the case may be under this Agreement.

## ARTICLE 15

### *Drilling Obligation*

1. Exploration operations shall commence not later than six months after the Effective Date.
2. Drilling shall be commenced and continued with all reasonable speed in accordance with good petroleum industry practice; but Second Party shall in any case have commenced, within a maximum period of 18 months after the Effective Date, the drilling of at least one well for Petroleum in the Assigned Area.
3. If at the end of six years after the Effective Date, commercial production has not been achieved in the Assigned Area the present Agreement shall become null and void and HOPECO shall be liquidated.

## ARTICLE 16

### *End of Exploration Stage: Achievement of Commercial Production*

#### *End of Exploration Operations*

1. The time at which the exploration operations come to an end for each field shall be the date of submission by Second Party of a report to the effect that a commercial well has been completed. Such report shall cover the detailed history for the well including all geological, drilling, petroleum and reservoir engineering, and production test result and data. It is understood that the tests leading to the conclusion that such commercial well has been discovered and completed shall be carried out in the presence of representative of First Party. For this purpose, First Party shall be immediately advised of any evidence of Petroleum.

#### *Commercial Well*

2. A well shall be considered "Commercial" either
  - (a) when its theoretical productivity estimated on the basis of the thickness of the pay zone, the petrophysical properties of the reservoir rock, PVT analysis data, productivity indices at various rates of flow and an assumed drainage area of 1/2 mile radius around the well bore, indicates that the well is capable of producing by natural flow a sufficient volume of Crude Oil within a period of 6 years, the present worth value of which, based on the assumed applicable Posted Price, at the date of the evaluation and on a discount rate of 10 % shall cover 2 times the cost of drilling and completing that well, or
  - (b) when it has proved to be capable of producing by natural flow Crude Oil at the rate of 2,000 bbl./d. during 30 consecutive days for horizons not exceeding 2,500 meters in depth and 3,000 bbl./d. for deeper horizons.

The fact that a commercial well as defined in this Section has been discovered shall not be considered sufficient in itself to establish that the relevant structure and reservoir constitute a Commercial Field.

*Iran*

The provisions laid down in this Article shall be equally applicable to the First Commercial Well(s) subsequently discovered in other parts of the Area.

*Commercial Field*

3. As soon as the Second Party comes to the conclusion that its operations have resulted in the discovery of a Commercial Field, it shall submit a detailed report of its conclusions to First Party.
4. Second Party's report to be submitted to First Party under Section 3 above shall clearly set out all relevant data including but not limited to the following:
  - (a) Geological and geophysical information, thickness of the producing zone, distance or distances of different fluid levels, core analysis, petrophysical properties of reservoir rock, PVT analysis data of reservoir fluids, potential productive capacity of the reservoir, the daily potential productive capacity of each well, the characteristics and the relevant analysis of the Crude Oil discovered, the depth, pressure and other characteristics of the reservoir and the fluids contained therein.
  - (b) The distance and accessibility of the reservoir from the seaboard and major market outlets, the availability of transport facilities to such outlets, or the cost of creating or completing such facilities.
  - (c) Any other relevant technical and economic factors relied upon by Second Party and conclusions drawn therefrom.
  - (d) Opinions expressed by the expert or experts charged with the relevant operations.
5. First Party shall examine Second Party's report within a reasonable time with a view to determining whether a Commercial Field within the meaning of this Agreement as defined in Section 6 of this Article has or has not been discovered.
6. For the purpose of this Agreement the Parties agree that a field shall be regarded as commercial only if the quantity of Crude Oil derivable therefrom according to the most reasonable foreseeable development plan is such that delivery of Crude Oil at the seaboard shall be possible on the following basis:  
If the "Present Worth" value of the cumulative volume of the Crude Oil expected to be produced and exported pursuant to the paragraph above during the first 20 years computed on the basis of the assumed applicable Posted Price and herein-after referred to as the "Discounted Value" is reduced by:
  - (a) "Present Worth" of cumulative operating costs in respect of the volume of the Crude Oil expected to be produced and exported during the first 20 years, including lifting, processing, storage, transportation, loading and other charges;
  - (b) total exploration expenditure incurred under this Agreement up to the discovery of the Commercial Field, plus estimated exploration expenditure to be incurred during the remainder of the exploration period;
  - (c) anticipated development expenditure plus the Present Worth of interest on capital to be paid by First Party relating to the development of the field concerned;

*Selected Documents — 1971*

(d) an amount equivalent to 12½ %, 14 % and 16 % of the Discounted Value referred to above; which percentage shall correspond to the applicable rate of Stated Payment as specified under Section 1 of Article 25 of this Agreement;

(e) any other charges relevant to the operations in question;

there should be left a profit of not less than 45 % of the Discounted Value.

For the purpose of computing the Present Worth in all cases referred to in this Article a discount rate of 10 % shall be used over a period of 20 years.

In addition for the purpose of this Agreement if the total quantity of Crude Oil reasonably foreseen as derivable from two or more fields in the Assigned Area taken together meets the test of commerciality set out in this Section 6 such two or more fields taken together shall constitute a Commercial Field.

7. (a) If First Party concludes that Second Party's finding to the effect that a Commercial Field has been discovered is justified it shall inform Second Party accordingly. All expenditure incurred subsequent to the date of completion of the Commercial Well discovered until the Date of Commencement of Commercial Production as it is defined in Section 2 of Article 29 hereunder shall be considered as development and exploitation expenditure.

If First Party concludes that Second Party's finding to the effect that a Commercial Field has been discovered is not justified, it shall inform Second Party of its views and the reasons therefor. Thereupon Second Party may undertake further drilling and if the results of such further drilling confirm the existence of a field capable of commercial production, all expenditure incurred subsequent to the date of completion of the first Commercial Well discovered until the Date of Commencement of Commercial Production shall be considered as development and exploitation expenditure.

(b) As soon as a field is recognized as commercial according to the provisions laid down in this Article, First and Second Parties shall undertake to embark on the development of such a field, taking into consideration the recoverable reserves thereof, and shall thus determine the production capacity of it called "Developed Production Capacity" to be revised from time to time by both Parties. "Developed Production Capacity" as determined hereabove, shall in no event exceed the MER of the field concerned in conformity with sound industry practice.

In planning the above Developed Production Capacity of each field First and Second Parties shall jointly determine programmes and budgets for such capacity, taking into consideration all relevant technical and economic factors.

8. The provisions of this Article shall also apply in respect of any field discovered subsequent to the first field.

*Financing of Development and Exploitation of Commercial Fields*

9. The Second Party accepts that upon discovery of any commercial field(s) it shall, if and when the First Party requires, in addition to its own share, also provide First Party's 50 % share of all the expenditure required for complete development and exploitation of such Commercial Fields, as defined in Section 7 of this Article,

*Iran*

according to the initial development programme as agreed between the two Parties, subject to:

- (a) Payment by First Party of an interest equal to the rate of discount of the Federal Reserve Bank of New York plus one percent, or at the rate of 7 % whichever is smaller. No tax shall be payable on the interest on the amounts provided under this paragraph.
  - (b) Reimbursement of the above expenditure by First Party in 10 years to Second Party in 20 equal semi-annual instalments; the first payment to be made six months after the Date of Commencement of Commercial Production and subsequent payments to be made at semi-annual intervals thereafter.
  - (c) Reimbursement by First Party of the amounts provided by Second Party under this Section shall be made in the currency originally provided.
10. As from the Date of Commencement of Commercial Production, for each field, the Parties hereto jointly shall assume the responsibility for financing of all expenditures subsequent to that date, required for all petroleum operations in respect of such field. It is however understood that the provisions of this Section will not apply to the expenditure considered as a part of the implementation of the initial development programme referred to in Section 9 above.
  11. Upon establishment of a Commercial Field all expenditures effected up to the date of completion of first commercial well, in any part of the Assigned Area, shall be considered as exploration expenditure repayable to Second Party by Joint Structure in the manner prescribed in Section 13 of this Article.
  12. After completion of the first Commercial Well as laid down in Section 1 of this Article, Second Party shall advance through HOPECO the exploration expenses necessary for each field for work on other parts of the Assigned Area. The aforesaid expenses shall be refunded to Second Party after commencement of commercial production from such a new Field, or failing such commencement of the commercial production from the said field, after the expiry of the entire exploration period of six years.
  13. In fulfilment of the repayment obligations, in respect of the exploration expenditure, HOPECO shall credit the account of Second Party with a sum equal to the exploration expenditure.  
The payment to Second Party of sums credited in accordance with this Article to Second Party's Account shall be effected as from the Date of Commencement of Commercial Production annually by HOPECO at the rate of one tenth of the exploration expenditure advanced by Second Party for each field.
  14. Fifty percent of the sums paid to Second Party in repayment of exploration expenses shall be paid by Second Party to First Party. Second Party shall not be entitled to subtract such payment from its gross receipts for tax purpose under Section 6 of Article 26.
  15. If at the end of sixth year from the Effective Date, Commercial production shall not have been achieved the Agreement shall be terminated and there shall be no

*Selected Documents — 1971*

repayment obligation in respect of any expenditure incurred prior to such termination.

**ARTICLE 17**

*Production and Offtake Programme*

1. Each Party shall exercise its utmost efforts in order to ensure the sale of the maximum possible quantity of Petroleum; this, however, does not mean to diminish Second Party's obligation to provide outlets for marketing as stated in the preamble hereunder.
2. The production programme for each year shall be prepared by HOPECO at least six months before the end of the preceding year, on the basis of "Developed production capacity" determined by First and Second Parties under Paragraph (b) of Section 7 of Article 16 of this Agreement and in accordance with the following provisions, observing the order of priority established hereunder:
  - (a) HOPECO in carrying out the operations in Iran authorized by this Agreement, shall have the right to use, free of charge, the Petroleum produced for the conduct of its operations to the extent that such use is appropriate and necessary. During the exploration period if a commercial field has been established the Second Party shall however pay to the First Party for each unit of Petroleum used in exploration operations hereunder one half of the Unit Production Cost of such Petroleum used in the exploration operations hereunder.
  - (b) HOPECO shall deliver to First Party such Petroleum as may be required for Internal Consumption in accordance with the provisions of Article 21.
  - (c) HOPECO shall supply to First and Second Parties such quantities of Petroleum as they may require in accordance with provisions of Article 18.
3. The Parties shall agree on a detailed procedure for offtake requirements and programmes.

**ARTICLE 18**

*Supplies to First and Second Parties for Export*

1. The determination of the quantities of Petroleum to be supplied to First Party and to Second Party as referred to in Article 17, Section 2 (c) shall be effected in the following manner:  
HOPECO shall bring to the notice of First and Second Parties its estimate of production prepared in accordance with Article 17, Section 2. Second Party shall take from HOPECO one half of the quantity available for export and shall purchase any part of the other half to the extent that the First Party may not elect to take the quantity available to it.

*Iran*

2. Second Party having purchased any part of First Party's share of 50 percent in any calendar year shall pay to the First Party an amount equal to the volume thus purchased multiplied by one half of the sum of the following:
  - (a) The weighted yearly average of the Applicable Posted Price.
  - (b) The Unit Production Cost.
  - (c) Any other costs which may, according to the taxation regulations, be included in the production cost of the First Party.
3. Payments in respect of 2 above shall be affected on a monthly and provisional basis and shall be retroactively adjusted at the end of each year.

**ARTICLE 19**

*Export of Petroleum*

1. The export of Petroleum produced from the Assigned Area shall be exempt from customs duties and export taxes and shall not be subject to other taxes, charges or payments to any government authority in Iran, whether central or local.
2. First Party, Second Party, and their customers may freely export Petroleum from Iran without the necessity of a licence or other special formalities, save only such documentation and formalities as are described in Article 28, Section 6 of this Agreement.
3. Insofar as exports referred to in this Article and any imports and re-exports referred to in Article 28 are concerned, the exporter or importer may freely decide whether and with whom and to what extent the vessels, crews, cargoes and freight shall be insured.
4. (a) Second Party shall under competitive terms and conditions give priority, to transportation of Petroleum and oil products produced under this Agreement through pipeline systems wholly or partly owned by the First Party.  
(b) Second Party shall under comparable terms and conditions give priority to transportation of its 50 percent share of Petroleum produced under this Agreement by tankers owned wholly or partly by Iranian Entities which may be made available for worldwide trading. A partly owned tanker under this paragraph means any tanker which is owned at least 49 percent by Iranian Entities.

**ARTICLE 20**

*Posted Prices*

First and Second Parties shall each publish Posted Prices in the amounts determined by the Board of Directors of HOPECO on the basis of the definition in Article 1 (I). The Crude Oil produced under this Agreement shall be sold in Iran by First and Second Parties at such Posted Prices. This provision does not apply in respect of sales by either Party to other Party.

*Selected Documents — 1971*

ARTICLE 21

*Crude Oil for Internal Consumption*

1. HOPECO shall supply to First Party such quantity of Crude Oil produced and saved from the Assigned Area as First Party may require for Internal Consumption in Iran provided that:
  - (a) First Party shall give written notice to HOPECO on a quarterly basis of its requirements in accordance with the provisions of Article 17 of this Agreement.
  - (b) HOPECO shall not be required to supply Crude Oil to First Party to the extent that such Crude Oil is required by it in carrying out its operations under this Agreement.
  - (c) First Party shall not require HOPECO to supply Crude Oil in any annual period in quantities, exceeding 10% of the HOPECO total production, in that year.
  - (d) HOPECO shall not be required, in order to supply First Party's requirements, to produce Crude Oil at a rate higher than the Maximum Efficient Rate of production.
2. Crude Oil required to be supplied under Section 1 of this Article shall be delivered to First Party by HOPECO at such point in or adjacent to the field of production as may be agreed by the Parties and HOPECO. First Party and Second Party shall contribute equal quantities to such delivery and title to Second Party's contribution shall pass to First Party at the point where delivery is made.
3. First Party shall pay to Second Party for Crude Oil supplied by Second Party under Section 1 of this Article an amount equivalent to the sum of Unit Production Cost, plus a fee of fourteen cents per cubic meter. Such payments shall be made within fifteen days of the date of presentation by Second Party of a provisional bill therefor. Within three months after the end of each calendar year, Second Party shall adjust its billings for such calendar year in accordance with the final determination by HOPECO of Unit Production Cost and First Party shall thereupon be debited or credited with any difference, as the case may be, and settlement thereof shall be made within fifteen days of presentation of such debit or credit note.

ARTICLE 22

*Natural Gas*

1. Natural Gas produced in association with Crude Oil shall be disposed of in accordance with the following order of priority:
  - (a) Utilization in the course of the operations of HOPECO under this Agreement.
  - (b) NIOC's requirements for Internal Consumption in Iran including feed stock to be used in the manufacture of Petrochemicals (whether for Internal Consumption in Iran or for exports).

*Iran*

- (c) Any remaining volumes of gas shall be made available fifty percent to the First Party and fifty percent to the Second Party, according to the provisions of Section 3 of this Article.
- 2. In cases covered by Section 1 (a) and (b) delivery shall be made at the gas/oil separators and no charge of any description shall be made to First Party.
- 3. (a) In case there is a surplus of associated Natural Gas after taking into account the estimated quantities of maximum requirements under Section 1 (a) and (b) above HOPECO shall request each Party to notify HOPECO within 6 months whether it elects to lift its allocated ratio under Section 1 (c) above of the available surplus of associated Natural Gas. The election by either Party so notified shall be considered as final and irreversible. In the event that Second Party elects to use its allocated ratio of surplus associated Natural Gas it shall submit a programme to First Party together with its notice of election, which programme shall be implemented and completed within a reasonable period of time to be approved by First Party.  
(b) In the event the Second Party does not notify HOPECO of its election within a six months period as stated in the foregoing paragraph of this Section or in the event it does not elect to take delivery of its share of associated Natural Gas as provided for in Section 1 (c) above, all the available associated Natural Gas after taking into account the requirements under Section 1 (a) above shall be put at the disposal of NIOC, and no charge whatsoever shall be made thereupon.  
(c) The additional facilities required for delivery to NIOC of such gas shall be installed and operated by HOPECO for the account of NIOC.
- 4. In the case of discovery of a Natural Gas Field the following provisions shall apply:
  - (a) A Natural Gas Field shall be considered as having been evidenced when a first Commercial Gas Well, as defined in Section 5 of this Article has been completed. In such a case HOPECO shall delineate the Gas Field.
  - (b) The first Commercial Gas Well means a gas well that has proved to be capable of producing by natural flow at the rate of one million cubic meters of gas per day during fifteen consecutive days.
  - (c) After delineation of a Gas Field the Parties shall contact each other with a view to finding out the possibilities for the development and export of gas from such Field on the basis of the provisions set forth in this Agreement, in which case an arrangement shall be made between the Parties before the implementation of any development programme setting out the conditions governing the production including cost, prices and other relevant matters. Such an arrangement should be made not later than two years from the date of discovery of such a Gas Field. Should the development of a Gas Field not be considered as economically justified within the above period of two years such a Field shall be excluded from the Assigned Area and returned to NIOC.

*Selected Documents — 1971*

**ARTICLE 23**

*Currency Arrangements Between Parties*

First and Second Parties undertake to furnish each one half of the currencies necessary for the operations of HOPECO in the manner provided for in this Agreement.

**ARTICLE 24**

*Currency and Foreign Exchange*

1. First and Second Parties as well as HOPECO shall in respect of all operations under this Agreement be subject to the foreign exchange rules and regulations applicable in Iran, subject however to the following provisions of this Article.
2. Income Tax and Stated Payments in respect of operations under this Agreement and any amounts falling due under Article 18, Section 2 and Article 27 shall be payable in U.S. dollars or in sterling or in such other currency as may be acceptable to the Central Bank of Iran. Except as otherwise provided herein all other payments due by First Party to HOPECO or Second Party hereunder shall be made in Iranian currency.
3. (a) The principal books and accounts of HOPECO and Second Party shall be kept in U.S. dollars and for this purpose, conversion from Iranian currency into U.S. dollars shall be made at the weighted average monthly rate of exchange at which Iranian currency was purchased for U.S. dollars by HOPECO or Second Party during the relevant month or, if there was none during the relevant month, during nearest preceding month.  
(b) Any expenditure incurred or receipt realized in any currency other than U.S. dollars or Iranian currency shall be converted into U.S. dollars, at the mean of New York buying and selling rates of exchange for the currency in question as certified by Central Bank of Iran at close of business on the day on which the expenditure was incurred or the receipt is realized.  
In the case of any day when no New York buying and selling rates are quoted, the rate to be used instead of the mean of the New York buying and selling rates of exchange shall be the mean of the last previous New York quotations for the foreign currency in question as certified by Central Bank of Iran. Where the foreign currency in question is not quoted in New York the rate to be used for the purpose aforesaid, instead of the mean of the New York buying and selling rates of exchange, shall be such rate as Central Bank of Iran considers to be appropriate having regard to transactions in that foreign currency.  
(c) At the end of each annual period any exchange differences on the books of HOPECO or Second Party due to variations in the said rates of exchange shall be deducted from or added to, as the case may be, the entry(ies) concerned.

*Iran*

4. The Government shall ensure that HOPECO or Second Party shall be able to purchase Iranian currency which may be required for the operations, with U.S. dollars, or any other currency acceptable by Central Bank of Iran without discrimination at the commercial bank rate of exchange. The commercial bank rate of exchange means the bank rate of exchange used or available on the day in question for purchasing Iranian currency with any non-Iranian currency being the proceeds or any part of the proceeds of exporting any goods which constitute main items of export (in order of value) from Iran other than Crude Oil produced in Iran and products derived therefrom. If at any time there is more than one such bank rate, the rate that yields the greatest number of units of Iranian currency shall be applied. The full value of any exchange certificate premium or similar device shall be reckoned as an integral part of the bank rate.
5. HOPECO or Second Party shall not be bound to convert into Iranian currency any part of their funds, except such funds as they consider necessary for meeting the cost of the operations in Iran, which funds shall be converted into Iranian currency through Authorized Banks.
6. During the Term of this Agreement, and after the termination thereof, HOPECO or Second Party shall not be restrained from freely retaining or disposing of any funds outside Iran, including such funds as may result from their activities in Iran, or restrained from maintaining foreign exchange accounts in Iran with the Central Bank of Iran and freely retaining or disposing of, including exporting, any funds standing to the credit thereof to the extent that such funds and assets have been imported by HOPECO or Second Party into Iran under this Agreement or have been derived from their operations.
7. After the termination of this Agreement, the Government shall ensure that funds held by Second Party in Iranian currency which have resulted from the operations under this Agreement, shall be convertible into U.S. dollars upon demand without discrimination at the generally available bank rate of exchange.
8. Non-Iranian Directors and non-Iranian employees of HOPECO or Second Party and their families shall not be restrained from freely retaining or disposing of any of their funds outside Iran and shall be free to import such foreign funds into Iran as are required for their own needs and not for speculation.  
HOPECO or Second Party and their employees shall not be allowed to effect in Iran exchange transactions of any kind through channels other than the authorized banks or such other channels as the Government shall approve.
9. Any non-Iranian Director or non-Iranian employee of HOPECO or Second Party whose salary is paid in Rials shall be entitled freely to export from Iran during the course of each year and during the continuance of his employment in Iran, in the currency of the country of his habitual residence an amount not more than 50 % of his total salary for that year after the deduction of the Income Tax to be paid to the Government of Iran.
10. Any non-Iranian Director or non-Iranian employee of HOPECO or Second Party shall upon the termination of his services in Iran and departure from Iran, be

*Selected Documents — 1971*

entitled freely to export from Iran in the currency of the country of his habitual residence, an amount not exceeding 50 % of his last 24 months total salary after the deduction of the Income Tax to be paid to the Government of Iran.

**ARTICLE 25**

*Expense Obligation*

1. Second Party shall pay to First Party a Stated Payment in respect of Second Party's 50 percent share of the Crude Oil exported by it under this Agreement in conformity with the provisions set below:
  - (a) 12.5 percent of the value, in U.S. dollars at applicable Posted Price, of the Second Party's share as referred to above until a cumulative amount of 60,000,000 Bbls. of Crude Oil of such share has been reached.
  - (b) Thereafter 14 percent of the value, in U.S. dollars at applicable Posted Price, of Second Party's share until a cumulative amount of 120,000,000 Bbls. of Crude Oil of such share has been reached.
  - (c) Thereafter 16 percent of the value at applicable Posted Price of the Second Party's share after the amount of Crude Oil referred to above has been exceeded. Payments as stated above shall be made as follows:
    - (i) Within 15 days after the end of each month HOPECO shall estimate the Stated Payment to be made by Second Party in respect of that month under the Provisions of this Section and Second Party shall pay to First Party the amounts so estimated.
    - (ii) Within 2 months after the end of each year HOPECO shall calculate the total Stated Payment for that year and any adjustment required as a result of such calculation shall be made.  
NIOC, shall be entitled to elect to take Crude Oil (valued at the applicable Posted Price thereof) in lieu of all or part of the Stated Payment for Crude Oil referred to above.
2. On or before the expiration of thirty days after the Effective Date, Second Party shall pay to First Party, as a cash bonus, the sum of two Million U.S. dollars (U.S. \$2,000,000) by depositing said amount in First Party's account in a bank in New York the number of said account and the name and address of said bank to be specified by First Party by written notice to Second Party not less than ten days before said payment is to be made.  
In addition to the above cash bonus, Second Party shall pay to the National Iranian Oil Company, a bonus of U.S. dollars 4,000,000 within 30 days from the Date of Commencement of Commercial Production; and an amount of U.S. dollars 6,000,000 within 30 days of the date on which the cumulative production of Crude Oil shall have reached 100,000,000 barrels.
3. Subject to the provisions of Section 4 below, Second Party shall expend, through HOPECO, a minimum of U.S. dollars eleven Million (U.S. \$11,000,000) for the

*Iran*

exploration Operations under this Agreement during the first six annual periods following the Effective Date; such minimum amount to be allocated for expenditure during each of the six annual periods in accordance with the following table:

<i>Annual periods next following The Effective Date</i>	<i>Amount</i>
First	\$2,667,000.00
Second	\$2,667,000.00
Third	\$2,666,000.00
Fourth	\$1,000,000.00
Fifth	\$1,000,000.00
Sixth	\$1,000,000.00

4. Within 30 days after the third annual period the total expenditures of Second Party for the exploration Operations during the preceding three annual periods shall be determined by HOPECO and certified by the auditors.
  - (a) If such expenditures are less than the amount allocated for expenditure in such period, the difference shall be paid to First Party.
  - (b) If such expenditures exceed the amount allocated for expenditure in such period the excess shall be deducted from the amount allocated for expenditure during the succeeding three annual periods.
  - (c) If the carrying out of the exploration Operation is rendered impossible, hindered or delayed in any year or years due to any force majeure occurrence as provided for in this Agreement, the allocations set forth in the table contained in Section 3 shall not be affected thereby; provided, however, that after such occurrence has ceased to exist Second Party shall fulfil its total obligations under Section 3 above before the sixth anniversary date of the Effective Date or before the expiry of such further period by which the Agreement shall be extended by reason of the force majeure occurrence.
5. During the first three annual periods field exploration operations may not be suspended or stopped for any reason whatsoever except force majeure as provided for in this Agreement. But at the end of the said period and of each of the following three years Second Party may, if it considers that the sub-surface conditions of the Assigned Area preclude a reasonable chance of discovering Petroleum in commercial quantities in the said Area, discontinue field exploration operations upon notification of such intention to First Party after proving that up to the date of such notification the field exploration work planned to be carried out and that all of the minimum amounts allocated for expenditure during the period prior to such notification have been fully spent. However, in the event that there remains an unexpended balance, Second Party shall pay the following:
  - (a) With respect to the first three annual periods—100 % of such unexpended balance;
  - (b) With respect to any of the succeeding annual periods concerning which such notification is given—50 percent of such unexpended balance.

*Selected Documents — 1971*

Second Party shall deliver to First Party on the Effective Date a Letter of Guarantee from a bank acceptable to First Party for the sum of U.S. \$8,000,000.00 being equal to Second Party's minimum exploration obligation for the first three annual periods, which Guarantee shall be annually releasable in parts in proportion to that year's actual exploration expenditure.

6. If upon termination of the sixth annual period Petroleum shall have been discovered but the minimum amount prescribed in Section 3 hereof shall not have been fully spent, Second Party shall pay to First Party one half of the unexpended balance.
7. Second Party shall pay to First Party, in respect of the Assigned Area, when commercial production has been achieved in accordance with Section 2 of Article 29, in advance, the annual rental in U.S. dollars equivalent to the amounts as set out in the Column A below:

<i>Date of Payment</i>	<i>Column A</i> <i>Rental per sq.km.</i>
On the Date of Commencement of Commercial Production and up to and including fourth anniversary date from such date.	U.S. \$400
On the fifth and each succeeding anniversary date up to and including ninth anniversary date.	U.S. \$480
On the tenth and each succeeding anniversary date up to and including fourteenth anniversary date.	U.S. \$600
On the fifteenth and each succeeding anniversary date up to and including nineteenth anniversary date.	U.S. \$780

The rental payments effected in accordance with the provisions of this Article shall be included in the Second Party's operating cost.

## ARTICLE 26

### *Taxation*

1. First Party, and Second Party and any Trading Company shall with respect to their respective net incomes from the operations authorized under this Agreement be subject to taxation in accordance with the Iranian Income Tax Laws as they may prevail from time to time.
2. The Government of Iran guarantees that First Party, and Second Party shall not be subject to rates of income tax or other provisions governing net income which are less favourable than those to which other companies, engaged in similar operations in Iran, which together produce or cause to be produced more than 50 % of Iranian Crude Oil are subject.
3. HOPECO acting solely as a non-profit making agent under this Agreement shall not be liable to taxation and similarly the Joint Structure relationship of the Parties shall not entail any tax obligation.

*Iran*

4. The income tax liability of First Party, and Second Party and any Trading Company shall be assessed on the basis of their respective net incomes from the operations authorized by this Agreement, computed in accordance with accounting practices generally accepted in the petroleum industry in Iran.
5. The gross receipts of First Party, and Second Party and any Trading Company in each taxation period shall equal the sum of:
  - (a) The value of each Party's share of the Crude Oil supplied by HOPECO to First Party for Internal Consumption in Iran, computed at the price established in accordance with Article 21 hereof; and payments received for Natural Gas delivered under Article 22, Section 4, if any; and,
  - (b) In the case of First Party, in respect of sales to the Second Party in accordance with Section 2 of Article 18, the amount determined in accordance with the said Section; and,
  - (c) The value of all Crude Oil otherwise exported, by either Party, which value shall be computed at the applicable Posted Price on the date of export of the Crude Oil concerned, provided that in the case of any sale to a Trading Company the value of the Crude Oil shall be amount of payment received for such Crude Oil from such Trading Company.
6. Each Party, in determining its net income shall only be entitled to subtract from its share of gross receipts its share of costs, expenses and charges incurred under this Agreement, as set forth hereunder provided that they are supported by documents or records:
  - (a) Each Party's share of all costs and expenses incurred by HOPECO necessarily and solely in connection with the carrying out of the operations authorized by this Agreement including administrative overhead and establishment expenses, contributions and rents or other charges for the use of any property, costs of drilling wells not productive of Petroleum in commercial quantities, cost of goods and services, expenditures made for ground, aerial and marine surveys, and for drilling, cleaning, deepening or completion of wells or the preparation therefor, except insofar as such costs and expenditures have been capitalized and an amortization allowance is subtracted on that account.
  - (b) An amount in each year for depreciation, obsolescence, exhaustion and depletion of capital expenditure made by HOPECO in connection with operations in Iran calculated at a rate of 10 percent per annum on the original cost thereof;
  - (c) The unapplied part of operating losses of each Party sustained in, and carried forward from previous taxation periods, provided that such carrying forward is not more than ten years from the taxation period during which such losses originated;
  - (d) Each Party's share of losses sustained by the carrying out of operations in Iran and not compensated for by insurance or otherwise, including bad debts, losses resulting from claims for damages arising out of operations in Iran, and losses

*Selected Documents — 1971*

- resulting from damage to, or destruction or loss of, any property used in connection with the said operations in Iran; and
- (e) An amount for each Party in each year in respect of amortization of all exploration expenditure incurred in accordance with Article 25, Section 3 equal to one half of one tenth of the said expenditure.
7. Second Party in addition to the above shall also be entitled to subtract from its gross receipts during each taxation period:
    - (a) An amount equal to 10 % of any Bonus paid to First Party under Section 2 of Article 25 of this Agreement, until said Bonus has been fully amortized;
    - (b) The amount of Stated Payment, paid in cash or kind under Article 25 of this Agreement;
    - (c) The amount of Rental Payment as provided for in Article 25 of this Agreement.
    - (d) Any amount paid to First Party for the purchase of its Crude Oil under Section 2 of Article 18.
  8. Each Party shall separately file its own tax statement and pay any tax due.
  9. Trading Company means any company wherever incorporated, duly registered in Iran which derives income from selling in Iran Crude Oil produced under this Agreement which it has purchased from First Party or Second Party. Any Trading Company may subtract from its gross receipts during each taxation period the amount of the payments made to First Party or to Second Party in respect of any Crude Oil purchased.
  10. To the extent that any Trading Company fails to pay the income tax foreseen in this Agreement due on its taxable income derived from selling in Iran Crude Oil purchased from First Party or Second Party, the Party selling to that Trading Company shall make such payment.

**ARTICLE 27**

*Limit of Taxation*

Except for the following:

1. income tax payments to be made to Iran in accordance with Iranian Income Tax Law;
2. customs and import duties as applicable pursuant to Article 28 of this Agreement;
3. Stated Payment and any other payments to be made to First Party in accordance with this Agreement;
4. payments to the Iranian Government of taxes required to be withheld with respect to compensations and salaries paid to personnel;
5. payment of taxes required to be withheld in respect of payments to contractors or agents for works carried out under this Agreement;

*Iran*

6. non-discriminatory charges and fees for services rendered by Governmental Authorities on request or to the public generally such as tolls, water rates, municipal and sanitary charges; and port dues payable by vessels;
7. non-discriminatory taxes and fees of general application such as documentary stamp taxes, civil and commercial registry fees and patent and copyright fees; no payment of tax in any form whatsoever shall be required to be made by either Party to this Agreement to any governmental authority whether central or local and no taxes or duties shall be imposed on the exports of Petroleum by either Party nor on dividends paid by them from any income arising as a result of their operations under this Agreement.

**ARTICLE 28**

*Imports and Customs*

1. All machinery, equipment, craft apparatus, tools, instruments, spare parts, materials, timber, chemicals, blending materials and additives, automotive equipment and other vehicles, aircraft, building materials of all descriptions, steelworks, office fittings, equipment and furniture, ship's stores, provisions, protective clothing and equipment, instructional equipment, petroleum products not available in Iran and all other articles required exclusively for the efficient and economical conduct and performance of the basic technical operations and functions of HOPECO shall be imported without any licence and exempt from import under the name of HOPECO free of any customs duties and taxes. The foregoing articles shall include medical, surgical and hospital supplies, medical products and drugs and equipment, furniture and instruments required for the installation and operation of hospitals and dispensaries.
2. HOPECO shall with the approval of First Party have the right to re-export exempt from any export duties and taxes any of the articles it has imported for the temporary use.
3. HOPECO shall also have the right, subject to approval by NIOC, to sell in Iran such articles as shall have been temporarily imported, it being understood that in any such case it will be the responsibility of the buyer to pay any applicable duties and to comply with any formalities prescribed by the current regulations, and to furnish HOPECO with the necessary clearance documents.
4. Such articles as may be considered appropriate for the use or consumption of employees of HOPECO and their respective dependents may be imported subject to the relevant rules and regulations in force in Iran and upon the payment of any import and customs duties and other taxes generally applicable at the time of importation.
5. HOPECO undertakes to give preference, in the acquisition of equipment and supplies, to articles made or produced in Iran provided the said articles as compared to similar articles of foreign origin can be acquired on equally advantageous conditions with due regard to their quality, their price, their availability at the

*Selected Documents — 1971*

time and in the quantities required, and their suitability for the purposes for which they are intended. In comparing the prices of imported articles with that of articles made or produced in Iran account shall be taken of freight and of any customs duty and taxes payable under this Agreement on the imported articles.

6. All imports and exports under this Agreement shall be subject to customs documentation and formalities (but not to any payment from which they are exempt under the relevant provisions of this Agreement) not more onerous than those generally applicable.

**ARTICLE 29**

*Term of Agreement*

1. The Term of this Agreement shall extend to twenty years from the Date of Commencement of the First Commercial Production plus two additional renewal periods of five years each if renewed pursuant to Section 3 below.
2. The Date of Commencement of Commercial Production shall be the date on which there shall have been delivered as regular exports 100,000 cubic meters of Crude Oil from the Assigned Area.
3. Second Party, if it so desires, shall submit its request in writing in respect of each renewal period two years prior to the expiration of the then current term of the Agreement. Such renewal shall be subject to the following provisions.
4. Before each renewal takes place First and Second Parties shall negotiate and revise the Agreement in the light of then prevailing circumstances. The revised Agreement which shall govern the relationship between the Parties during the renewed period shall be based on the most progressive features of the Agreements related to the similar oil operations in Iran and shall include the most advantageous to Iran of the terms and conditions of such Agreements, taking into account all other relevant facts and considerations.

**ARTICLE 30**

*Termination of Agreement and Liquidation of Assets*

Upon expiry or termination of this Agreement HOPECO shall be liquidated, all assets created under this Agreement shall be transferred to NIOC in accordance with the following provisions:

1. All Fixed Assets shall be transferred free of charge.
2. All fully depreciated movable assets shall be transferred free of charge.
3. All movable assets not fully depreciated shall be transferred against payment to Second Party by NIOC of 50% of the remaining book value of such movable assets.

## ARTICLE 31

### *Transfers*

1. Second Party may at any time and from time to time transfer all or any part of the rights acquired and the obligations undertaken by it under this Agreement to:
  - (a) Any company or companies controlling Second Party.
  - (b) Any company or companies controlled by Second Party.
  - (c) Any company or companies controlled by any company or companies specified in (a) or (b) above, provided that for the purpose of this Section control of a company shall mean direct or indirect ownership of all of the stock of such company and the transferee is a company satisfying Article 4 of the Petroleum Act. Such transfer shall not in any way free the transferring Party from the obligation undertaken by it under this Agreement.
2. Any transfer by Second Party otherwise than as authorized under Section 1 above, shall require the prior written approval of First Party, which before granting the said approval shall obtain the confirmation of the Council of Ministers and approval of the Legislature.
3. Any merger or amalgamation by Second Party or the transferee thereto, shall require the written approval of First Party, which before granting the said approval shall obtain the confirmation of Council of Ministers.
4. Any transfer made under this Article shall be free from all transfer taxes or other duties, taxes, or other payments to the Iranian Government or any subdivision thereof.
5. Any person who becomes a Party to this Agreement by virtue of any transfer, merger or amalgamation under this present Article shall assume all the obligations undertaken by Second Party hereunder.

## ARTICLE 32

### *Force Majeure*

1. No failure or omission by either Party to carry out or to perform any of the terms or conditions of this Agreement shall give the other Party a claim against such Party or be deemed a breach of this Agreement, if and to the extent that such failure or omission arises from Force Majeure. Force Majeure includes but is not limited to strikes, lockouts, labour disturbances, acts of God, unavoidable accidents, acts of war (declared or undeclared) or any other matter reasonably beyond the control of the Parties to this Agreement.
2. More particularly and without limiting the generality of the foregoing, where any Force Majeure occurrence beyond the reasonable control of either Party renders impossible or delays the performance of any obligation or the exercise of any right under this Agreement, then the period whereby such performance or such exercise is delayed shall be added to any relevant period fixed by this Agreement.

*Selected Documents — 1971*

3. Nothing contained in this Article shall prevent the Parties from referring to Arbitration under Article 36 hereafter the question of whether or not this Agreement should be dissolved by total impossibility of performance.

**ARTICLE 33**

*Guarantee of Performance and Continuity*

The Ministry of Finance may take any action or give any consent on behalf of the Iranian Government which may be necessary or convenient under or in connection with this Agreement or for its better implementation and any action so taken or consent so given shall be binding upon the Government. All Iranian Authorities shall implement all such instructions as the Ministry of Finance shall give them in connection with the execution and administration of this Agreement and such Authorities shall have full power and authority to do so. If the Ministry of Finance should for any reason no longer exercise its powers and authority under this Article, such powers and authority shall be exercised by such other Ministry or agency as the Council of Ministers shall designate.

**ARTICLE 34**

*Conciliation*

1. If any dispute arises out of the execution or interpretation of this Agreement, the Parties may agree that the matter shall be referred to a mixed conciliation committee composed of four members, two nominated by each Party, whose duty shall be to seek a friendly solution. The conciliation committee, after having heard the representatives of the Parties, shall give a ruling within three months from the date on which the dispute was referred to it. The ruling, in order to be binding, must be unanimous.
2. If the Parties do not agree upon the reference of a dispute to a conciliation committee, or if a dispute is referred to the said Committee but not settled, the sole method of determining it shall be Arbitration in accordance with Article 35.

**ARTICLE 35**

*Arbitration*

1. Any dispute arising from the execution or interpretation of the provisions of this Agreement shall be settled by an Arbitration Board consisting of three arbitrators. Each of the Parties shall appoint an arbitrator and the two arbitrators before proceeding to arbitration shall appoint a third arbitrator who shall be the President of the Arbitration Board.

*Iran*

2. If one of the Parties does not appoint its arbitrator, or does not advise the other Party of the appointment made by it within two months of the institution of the proceedings, the other Party shall have the right to apply to the President of the Supreme Court of Iran to appoint the Second arbitrator.
3. If the two arbitrators cannot within two months from the date of the appointment of the Second arbitrator agree on the person of the third arbitrator, the latter shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the Supreme Court of Iran.
4. Any arbitrator so appointed by said President under Sections 2 and 3 above shall be an individual of international repute and experience as far as possible with respect to the fields of arbitration and Petroleum agreements and shall not be closely connected with nor have been in the public service of nor be a national of Iran nor of U.S.A.
5. The arbitrators shall notify their acceptance of the nomination to both Parties and to the President of the Supreme Court of Iran if they shall have been appointed by the said President within thirty days of receiving notice of their nomination. Failing such notification, it shall be assumed that they have refused the nomination and a new appointment shall be made in accordance with the same procedure.
6. The award which shall be final and binding may be given by a majority of the Arbitration Board. The Parties undertake to comply with it in good faith and either Party may seek execution of the award in any Court having jurisdiction over the Party against whom the execution is sought.
7. The place of arbitration shall be Tehran, Iran unless the Parties agree upon an alternate site.
8. The Parties shall extend to the Arbitration Board all facilities (including access to the Petroleum operation) for obtaining any information required for the proper determination of the dispute. The absence or default of any Party to an arbitration shall not be permitted to prevent or hinder the arbitration procedure in any or all of its stages.
9. Pending the issue of decision or award, the operations or activities which have given rise to the arbitration need not be discontinued. In case the decision or award recognizes that the complaint was justified, provision may be made therein for such reparation as may appropriately be made in favour of the complainant.
10. The cost of an Arbitration shall be awarded at the discretion of the Arbitration Board.
11. If for any reason a member of the Arbitration Board after having accepted the functions placed upon him is unable or unwilling to enter upon or to complete the determination of a dispute, then unless the Parties otherwise agree, either Party may request the President of the Supreme Court of Iran to appoint a substitute to the said member, in accordance with the regulations laid down in this Article.
12. Wherever appropriate, decisions and awards hereunder shall specify a time for compliance herewith.

*Selected Documents — 1971*

13. Either Party may within fifteen days of the date of the communication of the decision or award to the Parties, request the Arbitration Board who gave the original decision or award, to interpret the same. Such a request shall not affect the validity of the decision or award. Any such interpretation shall be given within one month of the date on which it was requested and the execution of the decision or award shall be suspended until the interpretation is given or the expiry of the said month, whichever first occurs.
14. The provisions of this Agreement relating to arbitration shall continue in force notwithstanding the termination of this Agreement.
15. Should the Parties reach an agreement on the issue submitted to the arbitration prior to the issuance of the award by the Arbitration Board, such agreement shall be recorded in the form of an "arbitral award made by consent of the Parties" and the mission of the Arbitration Board shall thus terminate.

**ARTICLE 36**

*Sanctions*

1. In case of failure by Second Party to pay the Rental and Bonus laid down in Article 25, Sections 2 and 6 on the dates provided for in this Agreement, First Party shall address a written notice of such failure to Second Party. If within one month of the due date, Second Party shall not have made the payment in question increased at a rate equal to twice the highest rate of interest enforced by the Central Bank of Iran in respect of the period of delay, First Party shall be entitled to terminate this Agreement.
2. In respect of the Joint Structure's obligation as laid down in Article 3 to relinquish its rights to parts of the Assigned Area, if Second Party fails within the specified time limits to notify First Party of its views concerning the areas to be relinquished, then First Party shall at its own discretion determine the parts to be relinquished. Such determination shall be final, and with effect from the date of notice thereof such parts as shall have been determined by First Party shall be regarded as excluded from the Assigned Area.
3. In the case of failure by Second Party to carry out the drilling obligation undertaken under Section 2 of Article 15 Second Party shall forfeit out of the Guarantee referred to in Article 25, Section 5 a sum of five hundred thousand U.S. dollars per month of delay not excused by force majeure. If within a period of six months from the specified time limit the obligation shall still be outstanding, First Party shall be entitled to terminate this Agreement. First Party shall also have the right to confiscate from the Guarantee as per Article 25, Section 5 all unexpended exploration expenditure obligation pertaining to the first 3 annual periods after the Effective Date.
4. The provisions of Article 32 relating to force majeure shall apply to the cases envisaged by this Article.

*Iran*

**ARTICLE 37**

*NIOC's Prerogatives*

NIOC acting on behalf of the Imperial Government of Iran, shall be authorized and be responsible for:

1. Determining methods and means of measurement of Petroleum produced and/or exported, under the provisions of this Agreement.  
Petroleum exported shall be verified and certified by NIOC for fiscalization.
2. Second Party shall provide all particulars which may be required by NIOC in respect of Petroleum exported by it.
3. HOPECO shall comply with principles of conservation of natural resources and in conduct of its operation always shall be mindful of the best interest of Iran.  
NIOC, shall exercise all necessary control for supervision required to insure full compliance with such principles.
4. NIOC may grant certain discounts from the price specified in Section 2 of Article 18 in cases when Second Party has purchased any part of First Party's 50 % share of Crude Oil under Section 2 of Article 18 of this Agreement. Such discounts however shall in no circumstances apply to Second Party's own 50 % share of Crude Oil, which as in the case of the aforesaid purchased Crude Oil shall be lifted at full Posted Price applicable to such Crude Oil.  
The amount of discount in each case shall be determined with a view to ensuring that no actual loss is sustained by Second Party in respect of its purchases of First Party's share of Crude Oil.
5. NIOC in addition to deliberations of the Audit Board and notwithstanding various provisions of this Agreement will have complete access to books and accounts of HOPECO.

**ARTICLE 38**

*Applicable Law*

This Agreement shall be governed by and interpreted according to the Laws of Iran, and where this Agreement is silent, the provisions of the Petroleum Act shall apply.

**ARTICLE 39**

*Language of Text*

The Persian and English texts of this Agreement are both valid. In case of dispute which is referred to arbitration, both texts shall be laid before the Arbitration Board who shall interpret the intention of the Parties from both texts.

*Selected Documents — 1971*

**ARTICLE 40**

*Notices*

All notices required or permitted hereunder shall be in writing and shall be deemed to have been properly given and delivered to a Party when delivered in person to an authorized representative of that Party, or when sent by mail or telegram or cable (confirmed by mail) to that party at its address hereinafter specified or such other address as either Party may notify in writing to the other.

NATIONAL IRANIAN OIL COMPANY  
AVENUE TAKHTE-DJAMSHID  
TEHRAN  
IRAN

MOBIL OIL CORPORATION  
150 EAST 42nd STREET  
NEW YORK CITY 10017  
NEW YORK  
U.S.A.

Executed and delivered in Tehran on  
27th July 1971

NATIONAL IRANIAN OIL  
COMPANY

By:

Chairman of the Board and Managing  
Director

MOBIL OIL CORPORATION  
By:

Chairman of the Board and Managing  
Director  
Attorney-in-fact

***SCHEDULE A***

**BOUNDARY OF THE ASSIGNED AREA OF HOPECO**

The Assigned Area, as referred to in Article 3 of the Agreement, lies in the Petroleum District (2) of the Iranian Petroleum Districts, and is part of the Iranian territorial waters and Continental Shelf together with any islands therein. The boundary of the Assigned Area is described as follows:

*Iran*

**Block One**

Starting from point (A), situated on the three-mile territorial water line from the lowest tide line of the mainland, with approximate geographical coordinates:

26° 57' 30" North Latitude  
56° 50' 54" East Longitude

thence Southwesterly on a straight line to the point (B) with approximate geographical coordinates:

26° 34' 00" North Latitude  
56° 46' 12" East Longitude

and continuing Southwesterly on the same straight line to the point (C) where this line intersects the boundary line of the Iranian Continental Shelf in the Persian Gulf (Hormoz Strait);

thence in a generally westerly direction on a line coincidental with the said boundary line to the point (D) where this boundary line intersects the meridian of longitude 56 degrees 27 minutes East;

thence due North on a straight line coincidental with the said meridian to the point (E) where this meridian intersects the three-mile territorial water line from the lowest tide line of the Hormoz Island at approximate geographical coordinates:

26° 59' 20" North Latitude  
56° 27' 00" East Longitude

thence in a generally easterly direction on a line coincidental with the three-mile territorial water line from the lowest tide line of the Hormoz Island and Mainland to point (A), the point of beginning.

**Block Two**

Starting from the point (E) situated on the three-mile territorial water line from the lowest tide line of the Hormoz Island with approximate geographical coordinates:

26° 59' 20" North Latitude  
56° 27' 00" East Longitude

thence due South on a straight line coincidental with the meridian of longitude 56 degrees 27 minutes East to the point (D) where this meridian intersects the boundary line of the Iranian Continental Shelf in the Persian Gulf (Hormoz Strait);

thence in a generally westerly direction on a line coincidental with the said boundary line to the point (3) where this boundary line intersects the meridian of longitude 56 degrees East;

thence due North on a straight line coincidental with the said meridian to the point (4) where this meridian intersects the three-mile territorial water line from the lowest tide line of the Queshm Island with approximate geographical coordinates:

26° 40' 04" North Latitude  
56° 00' 00" East Longitude

thence in a generally easterly direction on a line coincidental with the three-mile territorial water line from the lowest tide line of Queshm Island, the Mainland and Hormoz Island to point (E), the point of beginning.

**JOINT STRUCTURE AGREEMENT**

Between

**NATIONAL IRANIAN OIL COMPANY**

and

**TEIJIN LIMITED**

**NORTH SUMATRA OIL DEVELOPMENT COOPERATION CO., LTD.**

**MITSUI & CO., LTD.**

**MITSUBISHI SHOJI KAISHA, LTD.**

**MOBIL OIL CORPORATION**

THIS AGREEMENT is concluded between the National Iranian Oil Company hereinafter referred to as First Party and Teijin Limited, North Sumatra Oil Development Cooperation Co., Ltd., Mitsui & Co., Ltd. and Mitsubishi Shoji Kaisha, Ltd., all being corporations organized and existing under the laws of Japan, and Mobil Oil Corporation, a company incorporated under the laws of the State of New York, U.S.A. and hereinafter collectively referred to as Second Party, it being understood that the beneficial and economic interests of Second Party under this Agreement are owned by the above entities individually in undivided interests in the proportions stated in Article 1 (C) hereof;

WHEREAS First Party desires to expand the production and export of Iranian Petroleum, thereby increasing the benefits accruing to Iran, and to accomplish the said results with all possible expedition;

WHEREAS First Party is authorized by the Petroleum Act of July 31st 1957, to enter into an Agreement of this nature;

WHEREAS Second Party has the capital, necessary for carrying out the operations hereinafter specified, and in particular is capable of providing the requisite outlets to ensure the marketing of such Crude Oil as may be discovered and produced as a result of the said operation;

WHEREAS the Parties have technical competence and management skills necessary for carrying out the operations hereinafter specified;

WHEREAS the Parties intend that the provisions of this Agreement shall be carried out in a spirit of good faith and good will.

NOW THEREFORE, it is hereby agreed between First Party and Second Party, as follows.

*Iran*

**ARTICLE 1**

*Definitions*

Unless the context otherwise requires, the following definitions of certain terms herein-after used in this Agreement shall apply for the purpose of this Agreement.

- A. "Agreement" means this instrument and the Schedule attached hereto.
- B. "First Party" means the National Iranian Oil Company or any successor thereto.
- C. "Second Party" means Teijin Limited, North Sumatra Oil Development Cooperation Co., Ltd., Mitsui & Co., Ltd. and Mitsubishi Shoji Kaisha, Ltd., which companies as a group shall participate at the ratio of two-thirds (2/3), and Mobil Oil Corporation, which shall participate at the ratio of one-third (1/3), in undivided interests in the rights and obligations of Second Party under this Agreement or any person to whom a transfer is made in accordance with the provisions of Article 31 of this Agreement.
- D. "Petroleum Act" means the Petroleum Act of July 31st, 1957.
- E. "Petroleum" means Crude Oil and Natural Gas.
- F. "Crude Oil" means crude petroleum, asphalt and all liquid hydrocarbons in their natural state or obtainable from Natural Gas produced in association with Crude Oil.
- G. "Natural Gas" means wet gas, dry gas, all other gaseous hydrocarbons produced from oil or gas wells or the residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- H. "Internal Consumption in Iran" means Petroleum or Petroleum products or incidental substances sold within Iran for the purpose of consumption in contrast to their export from Iran as cargo lot.
- I. "Posted Price" means the f.o.b. price published for each gravity of Crude Oil offered for sale to buyers generally for export at the relevant point of export, which price shall be a price established in accordance with Article 20 on the basis of prevailing posted prices for Crude Oil in Persian Gulf with due regard to geographical location and API gravity.
- J. "Petroleum Operations" or "Authorized Operations" means all the functions described in Section 1 of Article 9 of this Agreement.
- K. "Cubic Meter" means one (1) cubic meter at sixty (60) degrees Fahrenheit and at normal atmospheric pressure.
- L. "Effective Date" means the date on which the Act of Parliament approving this Agreement has received the Royal Assent and for the purposes of this Agreement any reference in the Petroleum Act to the date of this Agreement shall be understood to be a reference to the Effective Date.
- M. "Land" means any land whether submerged or not.
- N. "Fixed Assets" means any asset erected, installed or constructed, permanently affixed and to be used directly in the conduct of operations hereunder.

*Selected Documents — 1971*

- O. "Taxation Period" means a calendar year of twelve (12) months commencing on January 1st of each year respectively or such other period as may be agreed to between the Parties and approved by the Ministry of Finance of Iran.
- P. "Assigned Area" means the area described in Schedule A or the areas remaining after reduction therefrom as provided for in Article 3 of this Agreement.
- Q. "Barrel" means a barrel of forty-two (42) standard U.S. gallons at sixty (60) degrees Fahrenheit and at normal atmospheric pressure.
- R. "Date of Commencement of Commercial Production" means the date defined under Section 2 of Article 29 of this Agreement.
- S. The Unit Production Cost of each Party to be determined by INPECO as referred to in Section 2 (a) of Article 17 and Section 2 (b) of Article 18 and Section 3 of Article 21 shall include and be limited to a per unit allocation of total exploration costs incurred by Second Party through INPECO plus the per unit allocation of all the costs of Joint Structure incurred through INPECO established in accordance with good oil accounting principles as agreed from time to time between the two Parties, but shall not include any proportion of Rentals, Cash Bonuses, Stated Payments, etc., as paid by Second Party.  
Rentals, Cash Bonuses and Stated Payments shall be included only by Second Party in its costs as referred to in Section 7 of Article 26.

**ARTICLE 2**

*Establishment of Joint Structure*

- 1. First Party and Second Party do hereby mutually enter into a Joint Structure relationship, which as contemplated by the Petroleum Act, does not constitute a separate juridical personality.
- 2. Except as otherwise provided herein and in the Petroleum Act, the Parties hereto shall participate equally in and under said Joint Structure relationship. First Party and Second Party sometimes in this Agreement are referred to collectively as "the Parties hereto" or as "the Joint Structure".
- 3. All equipment, machinery, installations and other property purchased or obtained hereunder at the expense of the joint account of the Parties hereto shall be owned, and all costs and expenses required for operations hereunder (except those costs and expenses which Second Party alone is required to contribute and pay for exploratory operations in accordance with Section 1 (c) of Article 11) shall be contributed and paid by the Parties hereto fifty percent (50 %) by First Party and fifty percent (50 %) by Second Party. Subject to the provisions of Article 22 of this Agreement Petroleum produced from the Assigned Area shall be owned fifty percent (50 %) by First Party and fifty percent (50 %) by Second Party. Title to Second Party's share of Petroleum shall pass at wellhead. First Party and each of the entities comprising Second Party shall have the right to call for the delivery in kind, to it or its nominee, of its share of the Petroleum as described in this Agreement.

*Iran*

**ARTICLE 3**

*Assigned Area and Relinquishment*

1. An Area as described in Schedule A hereof is assigned to the Joint Structure to exercise therein the operations authorized by this Agreement through the agency of Iran-Nippon Petroleum Company a corporation to be formed by the Parties hereto, as hereinafter provided in Article 5 hereof.
2. Not later than the end of the third year from the Effective Date, the total Assigned Area mentioned in Section 1 of this Article shall be reduced by not less than twenty-five percent (25 %). Thereafter within a maximum further period of two (2) years the Assigned Area shall be reduced again, if necessary, so that the total Assigned Area retained shall not exceed fifty percent (50 %) of the original Assigned Area.
3. Parts of the Assigned Area excluded to arrive at the reduction prescribed in Section 2 of this Article shall consist of blocks of not less than two hundred square kilometers each with an average length of not more than six (6) times their average width, or if not convenient, in such shape and size as First Party shall consider appropriate.
4. Not less than three (3) months in advance of the return of parts of the Assigned Area as provided for in Section 2 of this Article, Iran-Nippon Petroleum Company shall furnish to NIOC a description of the boundaries of the part to be returned. In determining the parts to be returned, the guiding principle shall be that the parts offering the least prospect of successful exploration, in the light of then available information, shall be returned first.
5. If at the end of the ninth (9th) year from the Effective Date, commercial production within the meaning of this Agreement shall not have been achieved in the Assigned Area, the same shall be returned to NIOC.
6. If at the end of the ninth (9th) year from the Effective Date, commercial production has been achieved, only those parts of the Area on which commercially exploitable fields shall have been discovered shall remain at the disposal of the Joint Structure. Such parts of the Assigned Area shall each be defined by a polygon having such definite geographical co-ordinates as determined by Iran-Nippon Petroleum Company and approved by NIOC. The Area so defined shall be that of polygon enclosing the lowest structural contour lines, or the limits of the area capable of producing Petroleum, as supported by all relevant data and which lies within the Assigned Area, whichever the case may be.

**ARTICLE 4**

*Registration of Second Party*

Within thirty (30) days after the Effective Date, the entities comprising Second Party, or their respective transferees designated under Article 31 shall each file an application for registration with the Iranian Registration Department in compliance with Iranian Law and regulations concerning the Registration of Companies.

## ARTICLE 5

### *Registration of INPECO*

1. Within sixty (60) days after the Effective Date of this Agreement, the Parties hereto shall constitute and register with the Iranian Registration Department, a Joint Company which shall be a non-profit company and which shall carry out, for the joint account as agent of both Parties, the Authorized Operations herein specified; it being understood, however, that in carrying out, and performing the exploratory operations herein made binding on Second Party, said company shall act as agent of Second Party only. The name of the said Joint Company shall be Iran-Nippon Petroleum Company and shall be referred to hereinafter as INPECO. The nationality of INPECO shall be Iranian and it shall be subject to the provisions of the Iranian Commercial Code in respect of any matter not provided for in its Statutes.
2. INPECO shall perform and carry out all operations required or permitted hereunder; and the Parties hereto shall pay all the costs and expenses required for such operations, jointly or individually as required by the terms of this Agreement, through the agency of INPECO. All contracts shall be made in the name of INPECO.
3. The costs and expenses required for equipping, staffing maintaining and operating the office or offices of INPECO shall be allocated on a fair and equitable basis, in accordance with good accounting practices, between the Parties hereto respectively according to the operation or operations from time to time being served; and the Parties hereto shall bear and pay their respectively allocated shares thereof. Without limiting the generality of the foregoing, the costs and expenses referred to in this Section 3 shall include salaries and wages of employees of INPECO and of employees lent on a temporary, part-time or permanent basis by one of the Parties hereto to INPECO, the cost of employee vacations, sickness, medical, hospital, pension, thrift, savings and other employee benefit plans to INPECO or to the Party hereto lending such employees, according to the conditions and rates prevailing in the oil industry generally in Iran for both Iranian and expatriate employees, the amounts paid to contractors and the amounts charged by either or both of the Parties hereto for the services of any of their respective departments, said services to be performed only under written contracts with INPECO with the approval of both Parties hereto.

## ARTICLE 6

### *Board of Directors and Auditors*

1. Each of the Parties hereto shall subscribe and pay for half of the capital of INPECO. The equal participation of the Parties hereto in INPECO shall be reflected in the management of the said Company. Accordingly half of the members of the Company's Board of Directors shall be nominated by First Party and half by Second

### *Iran*

Party. The selection of a Chairman, a Vice Chairman, Managing Director and Deputy Managing Director from among the Members of the Board shall be effected in the manner laid down in the Company's Statutes, it being understood that, during the first six (6) years of the exploration period the said Chairman and Deputy Managing Director shall be directors nominated by First Party and the said Vice Chairman and Managing Director shall be directors nominated by Second Party.

It is further understood that for a period of five (5) years after the first six (6) years of the exploration period, the Vice Chairman and the Managing Director shall be nominated by First Party and the Chairman and Deputy Managing Director shall be nominated by Second Party.

This process of nomination will be reversed alternately for every period of five (5) years for the duration of this Agreement.

2. The Audit Board shall consist of two (2) auditors, one (1) to be nominated by each Party.

## **ARTICLE 7**

### *Capital of the Company*

1. The initial capital of INPECO shall be Rials 2,500,000. This capital may be increased from time to time, as necessary, in the manner prescribed in INPECO's Statutes.
2. Each Party shall provide fifty percent (50 %) of the initial capital mentioned above, as well as of any increases thereto.

## **ARTICLE 8**

### *Voting at General Meetings*

At the general meetings of INPECO which will be presided over by the Chairman of the Board of Directors, each Party shall carry one (1) vote. In the case of an equality of voting on any issue to be decided at any such meeting, the issue in question shall be deferred once and once only for further consideration at a general meeting to be held one (1) month from the date of the first meeting, or such later time as the Parties may agree.

## **ARTICLE 9**

### *Authorized Operations*

1. The operations authorized to be carried out by the Parties through INPECO under this Agreement include:
  - (a) The exploration for Petroleum in the Assigned Area by geological, geophysical and other methods, including drilling for Petroleum, the production of such

*Selected Documents — 1971*

Petroleum and all other functions normally associated with or reasonably incidental to exploration and exploitation operations.

- (b) The conveyance of Petroleum produced under this Agreement from fields to seaboard and the storing of Petroleum and the delivery of Petroleum produced from the Assigned Area by any means including loading on board ships, and all other functions normally associated with storage and transportation.
- 2. It is understood that the reclaiming of lands and creation of islands and the construction of railway lines, ports, telephone, telegraph, wireless services and aviation facilities and the use thereof shall be subject to the prior consent in writing of the Government, which consent shall be sought through the NIOC and NIOC shall endeavour to obtain such consent within a reasonable period of time and without undue delay.

**ARTICLE 10**

*Contractors*

In order to expedite the performance of operations authorized hereunder, INPECO without in any way diminishing the responsibilities of the Parties to Iran, may engage contractors for performing any part of the Authorized Operations provided that:

- (a) NIOC receives a copy of all such contracts.
- (b) Such contractors are selected on a prudent business judgement with due regard to the provisions of Paragraph (c) hereafter, and that under comparable terms and conditions priority is given to Iranian contractors.
- (c) INPECO shall always make every effort to ensure that the most economically advantageous cost for operations is obtained.

**ARTICLE 11**

*Second Party's Obligations*

- 1. Second Party, acting through INPECO, shall be subject to the following obligations with respect to exploratory operations including exploration drilling:
  - (a) To exert its utmost efforts to explore the Assigned Area to the maximum extent consistent with good petroleum industry practice;
  - (b) To submit to First Party a detailed progress report on the work done as well as a comprehensive final report;
  - (c) To carry the entire burden of the expenditure on exploration, namely First Party's share as well as its own, any cost of utilization of land being part of such expenditure;
  - (d) To observe the provisions of Sections 2, 3, 5, 7 and 8 of Article 12.

*Iran*

2. Second Party shall prepare in respect of each calendar year, exploration programmes and budgets for the Assigned Area in such a manner as to provide for and ensure the implementation of at least the minimum obligations set forth in this Agreement. In preparing such programmes and budgets Second Party shall consult with First Party and shall take into consideration the views expressed and proposals made by First Party. Such consultation shall take place not later than September 15th each year.
3. The programmes and budgets stipulated in Section 2 above shall be furnished to First Party in respect of each calendar year on or before October 31st of the preceding year. Any revision to the said programmes and budgets shall only be made after prior consultation with First Party.
4. Notwithstanding the provisions of Section 2 above, after the recognition of the first Commercial Field under this Agreement all exploration programmes and budgets shall be prepared by First and Second Parties jointly.
5. Except as otherwise provided for in this Agreement, the entities comprising Second Party, as defined in the preamble of this Agreement, shall each jointly and severally be responsible for the performance of all the obligations undertaken and for the full payment of all taxes, Stated Payments, Bonuses, Rentals, dues, charges and all other payments under this Agreement.

## ARTICLE 12

### *INPECO's Obligations*

The Parties hereto, acting through INPECO, at their joint cost and expense shall be subject to the following obligations:

1. To exert their utmost efforts to develop any field recognized as commercial to the maximum extent with all possible speed consistent with good petroleum industry practice; and in particular to observe sound technical and engineering practices in conserving the deposits of hydrocarbons, and in general in carrying out the operations authorized under this Agreement.
2. To maintain full records of all technical operations performed under this Agreement.
3. To keep in Iran full and correct accounts of their operations in such a manner as to present a fair, clear and accurate record of the cost of such operations, and for this purpose to adopt a suitable accounting procedure to be agreed upon by both Parties and revised from time to time in the light of future developments.
4. To enable authorized representatives of each Party to inspect at all reasonable times the operations and accounting thereof carried out under this Agreement, and all measuring apparatus and means of measurement and testing. All expenses except salaries, relating to such inspection shall be incurred by INPECO and shall be included in its operating costs.

*Selected Documents — 1971*

5. To minimize the employment of foreign personnel by ensuring that foreign personnel are engaged only to occupy positions for which Iranians having the requisite and comparable qualifications and experience have not been found.
6. To prepare plans and programmes for industrial and technical training and education and to co-operate in their execution with a view to ensuring the speedy and progressive reduction of foreign personnel in such manner that upon expiration of eight (8) years from the Effective Date the number of foreign nationals employed by INPECO shall not exceed two percent (2 %) of the total salaried staff employed by it, and the top executive positions occupied by non-Iranians shall not exceed thirty percent (30 %) of the total of top executive positions available.
7. To be always mindful, in the conduct of their operations, of the rights and interests of Iran.
8. To ensure that each of them shall obtain, through the medium of INPECO as agent, as and when it may so require and within a reasonable time, any and all information in the form of accurate copies of maps, sections, and reports relating to topographical, geological, geophysical, drilling, producing, engineering and other similar matters relating to the operations authorized under this Agreement as well as all important scientific, reservoir engineering and technical data resulting from the said operations. Any information supplied by INPECO to one of the Parties hereto shall be submitted simultaneously in exact duplicate to the other Party.
9. INPECO in establishing the medical, pension, savings and other similar plans from which its permanent employees and their dependants may benefit, shall conform to the related Iranian Law and Regulations and shall at all times conform to the practices prevailing in the Iranian Oil Industry.
10. To ensure the avoidance of unnecessary investment and to expedite the implementation of the provisions of this Agreement, if surplus capacity in pipelines, loading and other facilities and ancillary services exists in the installation of any oil company operating in Iran, the Parties to this Agreement must, before embarking on their own development and installation of similar facilities, seriously examine the possibilities of utilization and/or sharing of services and facilities of such other companies operating in Iran. Terms and conditions for right of use and/or sharing of these services and facilities will be agreed upon through direct negotiation between the parties concerned and/or through NIOC's good offices.

**ARTICLE 13**

*Confidential Nature of Information*

Any plans, maps, sections, reports, records, scientific and technical data, and any other similar information relating to the technical operations under this Agreement shall be treated by First Party, Second Party, and INPECO as confidential in the sense that their contents or effect shall not be disclosed by either Party or by INPECO without the consent of the Parties hereto, such consent not to be unreasonably withheld or delayed.

*Iran*

**ARTICLE 14**

*Land, Water and Servitudes*

Land, water and servitudes reasonably required for the purpose of the operations hereunder shall at the request of INPECO be acquired by NIOC and put at the disposal of INPECO.

The acquisition of lands, water and servitudes shall be effected in accordance with the procedure and subject to the conditions described in NIOC's Statutes.

The purchase prices or rents paid to acquire such lands, water and servitudes together with the expenditures incurred in connection therewith, shall be reimbursed to NIOC through INPECO and be included in the exploration or exploitation expenditures as the case may be under this Agreement.

**ARTICLE 15**

*Drilling Obligation*

1. Exploration operations shall commence not later than six (6) months after the Effective Date.
2. Drilling shall be commenced and continued with all reasonable speed in accordance with good petroleum industry practice; but Second Party shall in any case have commenced, within a maximum period of twenty-four (24) months after the Effective Date, the drilling of at least one (1) well for Petroleum in the Assigned Area.
3. If at the end of nine (9) years after the Effective Date commercial production within the meaning of this Agreement shall not have been achieved in the Assigned Area, this Agreement shall become null and void and INPECO shall be liquidated.

**ARTICLE 16**

*End of Exploration Stage: Achievement of Commercial Production*

*End of Exploration Operations*

1. The time at which the exploration operations come to an end for each field shall be the date of submission by Second Party of a report to the effect that a commercial well has been completed. Such report shall cover the detailed history for the well including all geological, drilling, petroleum and reservoir engineering, and production test result and data. It is understood that the tests leading to the conclusion that such commercial well has been discovered and completed shall be carried out in the presence of representative of First Party. For this purpose, First Party shall be immediately advised of any evidence of Petroleum.

*Commercial Well*

2. A well shall be considered "Commercial" either

- (a) when its theoretical productivity estimated on the basis of the thickness of the pay zone, the petrophysical properties of the reservoir rock, PVT analysis data, productivity indices at various rates of flow and an assumed drainage area of  $\frac{1}{2}$  mile radius around the well bore, indicates that the well is capable of producing by natural flow a sufficient volume of Crude Oil within a period of six (6) years, the present worth value of which, based on the assumed applicable Posted Price, at the date of the evaluation and on an annual discount rate of ten percent (10 %) shall cover twice the cost of drilling and completing that well, or
- (b) when it has proved to be capable of producing by natural flow Crude Oil at the rate of 2,000 bbl./d. during 30 consecutive days for horizons not exceeding 2,500 meters in depth and 3,000 bbl./d. for deeper horizons.

The fact that a commercial well as defined in this Section has been discovered shall not be considered sufficient in itself to establish that the relevant structure and reservoir constitute a Commercial Field.

The provisions laid down in this Article shall be equally applicable to the first Commercial Well(s) subsequently discovered in other parts of the Assigned Area.

***Commercial Field***

- 3. As soon as Second Party comes to the conclusion that its operations have resulted in the discovery of a Commercial Field, it shall submit a detailed report on its conclusions to First Party.
- 4. Second Party's report to be submitted to First Party under Section 3 above shall clearly set out the technical data including but not limited to the following:
  - (a) Geological and geophysical information, thickness of the producing zone, distance or distances of different fluid levels, core analysis, petrophysical properties of reservoir rock, PVT analysis data of reservoir fluids, potential productive capacity of the reservoir, the daily potential productive capacity of each well, the characteristics and the relevant analysis of the Crude Oil discovered, the depth, pressure and other characteristics of the reservoir and the fluids contained therein.
  - (b) The distance and accessibility of the reservoir from the seaboard and major market outlets, the availability of transport facilities to such outlets, or the cost of creating or completing such facilities.
  - (c) Any other relevant factors relied upon by Second Party and conclusions drawn therefrom.
  - (d) Opinions expressed by the expert or experts charged with the relevant operations.
- 5. First Party shall examine Second Party's report within a reasonable time with a view to determining whether a Commercial Field within the meaning of this Agreement as defined in Section 6 of this Article has or has not been discovered.
- 6. For the purpose of this Agreement the Parties agree that a field shall be regarded as commercial only if the quantity of Crude Oil reasonably foreseen as derivable

*Iran*

therefrom is such that delivery of Crude Oil at the seaboard shall be possible on the following basis:

If the "Present Worth" value of the cumulative volume of the Crude Oil expected to be produced and exported during the first twenty (20) years of production computed on the basis of the assumed applicable Posted Price and hereinafter referred to as the "Discounted Value" is reduced by:

- (a) "Present Worth" of cumulative operating costs in respect of the volume of the Crude Oil expected to be produced and exported during the first twenty (20) years of production including lifting, processing, storage, transportation, loading and other charges.
- (b) Total exploration expenditure incurred under this Agreement up to the discovery of the Commercial Field, plus estimated exploration expenditure to be incurred during the remainder of the exploration period.
- (c) Development expenditure incurred (if any) and anticipated development expenditure plus the Present Worth of interest on capital expenditure to be paid by First Party pursuant to Section 9 (a) of this Article relating to the development of the field concerned.
- (d) An amount equivalent to the undermentioned percentages (corresponding to the rates of Stated Payments) of the Discounted Value referred to above of Crude Oil expected to be produced and exported during the said twenty (20) years: 12½ % of the Discounted Value of the first one hundred million (100,000,000) barrels of such Crude Oil.  
14 % of the Discounted Value of the next fifty million (50,000,000) barrels of such Crude Oil.  
16 % of the Discounted Value of all such Crude Oil in excess of one hundred and fifty million (150,000,000) barrels; and
- (e) any other operational charges relevant to the Authorized Operations in question; there should be left a profit of not less than forty-five percent (45 %) of the Discounted Value.

For the purpose of computing the Present Worth in all cases referred to in this Article an annual discount rate of ten percent (10 %) shall be used over the said period of twenty (20) years.

In case the total quantity of Crude Oil reasonably foreseen as derivable from two or more fields in the Assigned Area taken together meets the test of commerciality set out in this Section 6, such two or more fields taken together shall constitute a Commercial Field.

7. (a) If First Party concludes that Second Party's finding to the effect that a Commercial Field has been discovered is justified it shall inform Second Party accordingly. All expenditure incurred subsequent to the date of completion of the first Commercial Well discovered until the Date of Commencement of Commercial Production as it is defined in Section 2 of Article 29 hereunder shall be considered as development and exploitation expenditure, and such

expenditure already incurred shall be refunded by Joint Structure to Second Party.

If First Party concludes that Second Party's finding to the effect that a Commercial Field has been discovered is not justified, it shall inform Second Party of its views and the reasons therefor. Thereupon Second Party may undertake further drilling and if the results of such further drilling confirm the existence of a Commercial Field all expenditure incurred subsequent to the date of completion of the first Commercial Well discovered until the Date of Commencement of Commercial Production shall be considered as development and exploitation expenditure, and such expenditure already incurred shall be refunded by Joint Structure to Second Party.

- (b) As soon as a field is recognized as commercial according to the provisions laid down in this Article, First and Second Parties shall undertake to embark on the development of such a field, taking into consideration the recoverable reserves thereof, and shall thus determine the production capacity of it called "Developed Production Capacity" to be revised from time to time by both Parties. "Developed Production Capacity" as determined hereabove, shall in no event exceed the MER (Maximum Efficient Rate) of the field concerned in conformity with sound industry practice.
8. The provisions of this Article shall also apply in respect of any field discovered subsequent to the first field, save that:
  - (a) in applying Sections 6 (b) and (c) to any such field discovered subsequent to the first field no account shall be taken of exploration or development expenditures in relation to the previous field or fields which have already been taken into account in the evaluation of the commerciality of such previous field or fields;
  - (b) in applying Section 7 (a) references to the Date of Commencement of Commercial Production shall be deemed to refer to the date on which there shall have been delivered as regular exports one hundred thousand (100,000) cubic meters of Crude Oil from the relevant Field.

*Financing of Development & Exploitation of Commercial Fields*

9. The Second Party accepts that upon discovery of any Commercial Field(s) it shall, if and when the First Party requires, in addition to its own share, also provide First Party's fifty percent (50 %) share of all the expenditure thereafter required for complete development and exploitation of such Commercial Fields, as defined in Section 7 of this Article, according to the initial development programme as agreed between the two Parties, subject to:
  - (a) Payment by First Party to Second Party of interest equal to the annual rate of discount of the Bank of Japan plus one percent (1 %), or at the annual rate of seven percent (7 %), whichever is smaller.
  - (b) Reimbursement of the above expenditure by First Party in ten (10) years to Second Party in twenty (20) equal semi-annual instalments; the first payment to

*Iran*

be made six (6) months after the Date of Commencement of Commercial Production and subsequent payments to be made at semi-annual intervals thereafter.

No tax shall be payable on the interest on the amounts provided by Second Party under this Section.

10. As from the Date of Commencement of Commercial Production for each field, the Parties hereto jointly shall assume the responsibility for financing of all expenditures subsequent to that date, required for all Petroleum Operations in respect of such field. It is however understood that the provisions of this Section will not apply to the expenditure considered as a part of the implementation of the initial development programme referred to in Section 9 above.
11. Upon establishment of a Commercial Field all expenditures effected up to the date of completion of the first commercial well, in any part of the Assigned Area, shall be considered as exploration expenditure repayable to Second Party by Joint Structure in the manner prescribed in Section 13 of this Article.
12. After completion of the first Commercial Well as laid down in Section 1 of this Article, Second Party shall advance through INPECO as provided for in Section 1 (c) of Article 11 the exploration expenses necessary for each field for work on other parts of the Assigned Area. The aforesaid expenses shall be refunded to Second Party after commencement of commercial production from such a new field or, failing such commencement of the commercial production from the said field, after the expiry of the entire exploration period of nine (9) years.
13. In fulfilment of the repayment obligations under Sections 11 and 12 in respect of the exploration expenditure, the Joint Structure through INPECO shall credit the account of Second Party with a sum equal to the exploration expenditure.  
The payment to Second Party of sums credited in accordance with this Section to Second Party's account shall be effected as from the Date of Commencement of Commercial Production annually by INPECO at the rate of one tenth of the exploration expenditure advanced by Second Party for each field.
14. Fifty percent (50 %) of the sums paid under Section 13 to Second Party in repayment of exploration expenses shall be paid by Second Party to First Party.
15. If at the end of the ninth (9th) year from the Effective date commercial production shall not have been achieved, there shall be no repayment obligation in respect of any expenditure incurred prior thereto.

## ARTICLE 17

### *Production and Offtake Programme*

1. Each Party shall exercise its utmost efforts in order to ensure the sale of the maximum possible quantity of Petroleum (subject to the provisions of Article 22 in respect of Natural Gas); this, however, does not mean to diminish Second Party's obligation to provide outlets for marketing as stated in the preamble hereunder.

*Selected Documents — 1971*

2. The production programme for each year shall be prepared by INPECO at least six (6) months before the end of the preceding year, on the basis of "Developed Production Capacity" determined by First and Second Parties under Paragraph (b) of Section 7 of Article 16 of this Agreement and in accordance with the following provisions, observing the order of priority established hereunder:
  - (a) INPECO in carrying out the operation in Iran authorized by this Agreement, shall have the right to use, free of charge, the Petroleum produced for the conduct of its operations to the extent that such use is appropriate and necessary. During the exploration period if a Commercial Field has been established Second Party shall however pay to First Party for each unit of Petroleum used in the exploration operations hereunder, one half of the Unit Production Cost of such Petroleum;
  - (b) INPECO shall deliver to First Party such Petroleum as may be required for Internal Consumption in accordance with the provisions of Article 21;
  - (c) INPECO shall supply to First and Second Parties such quantities of Petroleum as they may require in accordance with provisions of Article 18.
3. The Parties shall agree on the detailed procedure for offtake requirements and programmes.

**ARTICLE 18**

*Supplies to First and Second Parties for Export*

1. The determination of the quantities of Petroleum to be supplied to First Party and to Second Party as referred to in Article 17, Section 2 (c) shall be effected in the following manner:  
INPECO shall bring to the notice of First and Second Parties its estimate of production prepared in accordance with Article 17, Section 2. Second Party shall take from INPECO one half of the quantity available for export and shall purchase from First Party any part of the other half to the extent that First Party may not elect to take the quantity available to it.
2. Second Party having purchased any part of First Party's share of fifty percent (50 %) in any calendar year shall pay therefor to First Party an amount equal to the volume thus purchased multiplied by one half of the sum of the following:
  - (a) the weighted yearly average of the applicable Posted Price;
  - (b) the Unit Production Cost; and
  - (c) the proper allocation of any interest payable by First Party under the provisions of Article 16.
3. Payments in respect of Section 2 above shall be effected on a monthly and provisional basis and shall be retroactively adjusted at the end of each year.

*Iran*

**ARTICLE 19**

*Export of Petroleum*

1. The export of Petroleum produced from the Assigned Area shall be exempt from customs duties and export taxes and shall not be subject to other taxes, charges or payments to any government authority in Iran, whether central or local.
2. First Party, Second Party, and their customers may freely export Petroleum from Iran without the necessity of a licence or other special formalities, save only such documentation and formalities as are described in Article 28, Section 6 of this Agreement.
3. Insofar as exports referred to in this Article and any imports and re-exports referred to in Article 28 are concerned, the exporter or importer may freely decide whether and with whom and to what extent the vessels, crews, cargoes and freight shall be insured.
4. (a) Second Party shall under comparable terms and conditions give priority to transportation of Petroleum and oil products produced under this Agreement through pipeline systems wholly or partly owned by NIOC.  
(b) Second Party shall under comparable terms and conditions give priority to transportation of Petroleum produced under this Agreement by tankers owned wholly or partly by Iranian Entities which may be made available for worldwide trading.

**ARTICLE 20**

*Posted Prices*

First and Second Parties shall each publish Posted Prices in the amounts determined by the Board of Directors of INPECO on the basis of the definition in Paragraph 1 of Article 1.

The Crude Oil produced and exported under this Agreement shall for the purposes of Iranian Income Tax Laws be deemed to be sold in Iran on the date of export by First Party, any of the entities comprising Second Party or by any Trading Company at such Posted Prices.

**ARTICLE 21**

*Crude Oil for Internal Consumption*

1. INPECO shall supply to First Party such quantity of Crude Oil produced and saved from the Assigned Area as First Party may require for internal consumption in Iran provided that:

*Selected Documents — 1971*

- (a) First Party shall give written notice to INPECO on a quarterly basis of its requirements in accordance with the provisions of Article 17 of this Agreement;
- (b) INPECO shall not be required to supply Crude Oil to First Party to the extent that such Crude Oil is required by it in carrying out its operations under this Agreement;
- (c) First Party shall not require INPECO to supply Crude Oil in any annual period in quantities exceeding ten percent (10 %) of INPECO's total production in that year;
- (d) INPECO shall not be required, in order to supply First Party's requirements, to produce Crude Oil at a rate higher than the Maximum Efficient Rate of production (M.E.R.).
2. Crude Oil required to be supplied under Section 1 of this Article shall be delivered to First Party by INPECO at such point in or adjacent to the field of production as may be agreed by the Parties and INPECO. First Party and Second Party shall contribute equal quantities to such delivery and title to Second Party's contribution shall pass to First Party at the point where delivery is made.
3. First Party shall pay to Second Party for Crude Oil supplied by Second Party under Section 1 of this Article an amount equivalent to the sum of Unit Production Cost plus a fee of fourteen (14) U.S. Cents per cubic meter. Such payments shall be made within fifteen days of the date of presentation by Second Party of a provisional bill therefor. Within three (3) months after the end of each calendar year, Second Party shall adjust its billings for such calendar year in accordance with the final determination by INPECO of Unit Production Cost and First Party shall thereupon be debited or credited with any difference, as the case may be, and settlement thereof shall be made within fifteen (15) days of presentation of such debit or credit note.

**ARTICLE 22**

*Natural Gas*

1. Natural Gas produced in association with Crude Oil shall be disposed of in accordance with the following order of priority:
  - (a) utilization in the course of the operation of INPECO under this Agreement;
  - (b) NIOC's requirements for Internal Consumption in Iran including feed stock to be used in the manufacture of Petrochemicals (whether for Internal Consumption in Iran or for exports);
  - (c) any remaining volumes of gas shall be made available fifty percent (50 %) to First Party and fifty percent (50 %) to Second Party, according to the provisions of Section 3 of this Article.

*Iran*

2. In cases covered by Section 1 (a) and (b) delivery shall be made at the gas/oil separators and no charge of any description shall be made to First Party.
3. (a) In case there is a surplus of associated Natural Gas after taking into account the estimated quantities of maximum requirements under Section 1 (a) and (b) above INPECO shall request each Party to notify INPECO within six (6) months whether it elects to lift its allocated ratio under Section 1 (c) above of the available surplus of associated Natural Gas. The election by either Party so notified shall be considered as final and irreversible.  
(b) In the event Second Party does not notify INPECO of its election within six (6) months period as stated in the foregoing paragraph of this Section or in the event it does not elect to take delivery of its share of associated Natural Gas as provided for in Section 1 (c) above, all the available associated Natural Gas after taking into account the requirements under Section 1 (a) above shall be put at the disposal of NIOC, and no charge whatsoever shall be made thereupon.  
(c) The additional facilities required for delivery to NIOC of such gas shall be installed and operated by INPECO for the account of NIOC.
4. In the case of discovery of a Natural Gas field the following provisions shall apply:
  - (a) A Natural Gas field shall be considered as having been evidenced when a First Commercial Gas Well, as defined in paragraph (b) of this Section has been completed. In such a case INPECO shall delineate the Gas Fields.
  - (b) The First Commercial Gas Well means the first gas well that has proved to be capable of producing by natural flow at the rate of one million (1,000,000) cubic meters of gas per day during fifteen (15) consecutive days.
  - (c) After delineation of a Gas Field the Parties shall contact each other with a view to finding out the possibilities for the development and export of gas from such field on the basis of the provisions set forth in this Agreement, in which case an arrangement shall be made between the Parties before the implementation of any development programme setting out the conditions governing the production including cost, prices and other relevant matters. Such an arrangement should be made not later than one (1) year from the date of discovery of such Gas Field. However, should the development of a Gas Field not be considered as economically justified such a field shall be excluded from the Assigned Area and returned to NIOC.

**ARTICLE 23**

***Currency Arrangements Between Parties***

First and Second Parties undertake to furnish each one half of the currencies necessary for the operations of INPECO, in the manner provided for in this Agreement.

ARTICLE 24

*Currency and Foreign Exchange*

1. First and Second Parties as well as INPECO shall in respect of all operations under this Agreement be subject to the foreign exchange rules and regulations applicable in Iran, subject however to the following provisions of this Article.
2. Income Tax and Stated Payments in respect of operations under this Agreement and any amounts falling due under Section 2 and 3 of Article 18 and under Article 27 shall be payable in U.S. Dollars or in Sterling or in such other currency as may be acceptable to the Central Bank of Iran. Except as otherwise provided herein all other payments due by First Party to INPECO or Second Party hereunder shall be made in Iranian currency.
3. (a) The principal books and accounts of INPECO and Second Party shall be kept in U.S. Dollars and for this purpose, conversion from Iranian currency into U.S. Dollars shall be made at the weighted average monthly rate of exchange at which Iranian currency was purchased for U.S. Dollars by INPECO or Second Party during the relevant month or, if there was none during the relevant month, during nearest preceding month.  
(b) Any expenditure incurred or receipt realized in any currency other than U.S. Dollars or Iranian currency shall be converted into U.S. Dollars, at the mean of New York buying and selling rates of exchange for the currency in question as certified by Central Bank of Iran at close of business on the day on which the expenditure was incurred or the receipt is realized.  
In the case of any day when no New York buying and selling rates are quoted, the rate to be used instead of the mean of the New York buying and selling rates of exchange shall be the mean of the last previous New York quotations for the foreign currency in question as certified by Central Bank of Iran. Where the foreign currency in question is not quoted in New York the rate to be used for the purpose aforesaid, instead of the mean of the New York buying and selling rates of exchange, shall be such rate as Central Bank of Iran considers to be appropriate having regard to transactions in that foreign currency.  
(c) At the end of each annual period any exchange differences on the books of INPECO or Second Party due to variations in the said rates of exchange shall be deducted from or added to, as the case be, the entry(ies) concerned.
4. The Government shall ensure that INPECO or Second Party shall be able to purchase Iranian currency which may be required for the operations, with U.S. Dollars, or any other currency acceptable by Central Bank of Iran without discrimination at the commercial bank rate of exchange. The commercial bank rate of exchange means the bank rate of exchange used or available on the day in question for purchasing Iranian currency with any non-Iranian currency being

*Iran*

the proceeds or any part of the proceeds of exporting any goods which constitute main items of export (in order of value) from Iran other than Crude Oil produced in Iran and products derived therefrom. If at any time there is more than one such bank rate, the rate that yields the greatest number of units of Iranian currency shall be applied. The full value of any exchange certificate premium or similar device shall be reckoned as an integral part of the bank rate.

5. INPECO or Second Party shall not be bound to convert into Iranian currency any part of their funds, except such funds as they consider necessary for meeting the cost of the operations in Iran, which funds shall be converted into Iranian currency through authorized banks.
6. During the term of this Agreement, and after the termination thereof, INPECO or Second Party shall not be restrained from freely retaining or disposing of any funds outside Iran, including such funds as may result from their activities in Iran, or restrained from maintaining foreign exchange accounts in Iran with the Central Bank of Iran and freely retaining or disposing of, including exporting, any funds standing to the credit thereof to the extent that such funds and assets have been imported by INPECO or Second Party into Iran under this Agreement or have been derived from their operations.
7. After the termination of this Agreement, the Government shall ensure that funds held by Second Party in Iranian Currency which have resulted from the operations under this Agreement, shall be convertible into U.S. Dollars upon demand without discrimination at the generally available bank rate of exchange.
8. Non-Iranian Directors and non-Iranian employees of INPECO or Second Party and their families shall not be restrained from freely retaining or disposing of any of their funds outside Iran and shall be free to import such foreign funds into Iran as are required for their own needs and not for speculation.  
INPECO or Second Party and their employees shall not be allowed to effect in Iran exchange transactions of any kind through channels other than the authorized banks or such other channels as the Government shall approve.
9. Any non-Iranian Director or non-Iranian employee of INPECO or Second Party whose salary is paid in Rials shall be entitled freely to export from Iran during the course of each year and during the continuance of his employment in Iran, in the currency of the country of his habitual residence or in U.S. Dollars an amount not more than fifty percent (50 %) of his total salary for that year after the deduction of the Income Tax to be paid to the Government of Iran.
10. Any non-Iranian Director or non-Iranian employee of INPECO or Second Party shall upon the termination of his services in Iran and departure from Iran, be entitled freely to export from Iran in the currency of the country of his habitual residence or in U.S. Dollars an amount not exceeding fifty percent (50 %) of his last twenty-four (24) months total salary after the deduction of the Income Tax paid to the Government of Iran.

ARTICLE 25

*Expense Obligation*

1. Second Party shall pay to First Party a Stated Payment in respect of Second Party's fifty percent (50 %) share of the Crude Oil exported under this Agreement in conformity with the provisions set below:
  - (a) Twelve and a half percent ( $12\frac{1}{2} \%$ ) of the value, in U.S. Dollars at applicable Posted Price, of Second Party's share as referred to above until a cumulative amount of fifty million (50,000,000) Bbls. of Crude Oil of such share has been reached.
  - (b) Thereafter fourteen percent (14 %) of the value, in U.S. Dollars at applicable Posted Price, of Second Party's share until a cumulative total of seventy-five million (75,000,000) Bbls. of Crude Oil of such share has been reached; and
  - (c) sixteen percent (16 %) of the value in U.S. Dollars at applicable Posted Price, of Second Party's share after the amount of Crude Oil referred to in (b) above has been exceeded. Payments as stated above shall be made as follows:
    - (i) Within fifteen (15) days after the end of each month INPECO shall estimate the Stated Payment to be made by Second Party in respect of that month under the provisions of this Section and Second Party shall pay to First Party the amounts so estimated.
    - (ii) Within two (2) months after the end of each year INPECO shall calculate the total Stated Payment for that year and any adjustment required as a result of such calculation shall be made.  
NIOC shall be entitled to elect to take Crude Oil (valued at the applicable Posted Price thereof) in lieu of all or part of the Stated Payment for Crude Oil referred to above.
2. (a) On or before the expiration of thirty (30) days after the Effective Date, Second Party shall pay to First Party, as a cash bonus, the sum of thirty-five million U.S. Dollars (\$35,000,000) by depositing said amount in First Party's account in a Bank in New York the number of said account and the name and address of said bank to be specified by First Party by written notice to Second Party not less than ten (10) days before said payment is to be made.  
(b) An additional cash bonus of five million U.S. Dollars (\$5,000,000) shall also be paid to First Party in the same manner as provided in sub-section (a) above by Mobil Oil Corporation.  
(c) As an additional cash bonus, Second Party shall pay to First Party an amount of five million U.S. Dollars (\$5,000,000) within thirty (30) days from the Date of Commencement of Commercial Production and an amount of five million U.S. Dollars (\$5,000,000) within thirty (30) days of the date on which the cumulative production of Crude Oil shall have reached one hundred million (100,000,000) barrels.

*Iran*

3. Subject to the provisions of Section 4 below, Second Party in fulfilment of its obligation under Section 1 (c) of Article 11 shall expend, through INPECO, a minimum of fifty-two million U.S. Dollars (\$52,000,000) for the exploration operations under this Agreement during the first nine (9) annual periods following the Effective Date; such minimum amount to be allocated for expenditure during such nine (9) annual periods in accordance with the following table:

<i>Period</i>	<i>Amount</i>
Three-Year period beginning on the Effective Date (hereinafter referred to as "the first three-year period").	\$21,000,000
Three-Year period beginning on the third anniversary of the Effective Date (hereinafter referred to as "the second three-year period").	\$19,000,000
Three-Year period beginning on the sixth anniversary of the Effective Date (hereinafter referred to as "the third three-year period").	\$12,000,000
4. Within thirty (30) days after the first three-year period the total expenditures of Second Party for exploration operations during the first three-year period shall be determined by INPECO and certified by the auditors.	
(a) If such expenditures are less than the amount allocated for expenditure in such period, fifty percent (50 %) of the difference shall be paid to First Party.	
(b) If such expenditures exceed the amount allocated for expenditure in such period, the excess shall be deducted from the amount allocated for expenditure during the second three-year period. In a similar manner any excess expenditure during the second three-year period shall be deducted from the amount allocated for expenditure during the third three-year period.	
5. If the carrying out of exploration operations is rendered impossible, hindered or delayed in any year or years due to any force majeure occurrence as provided for in this Agreement, the minimum amount to be expended by Second Party in accordance with Section 3 of this Article shall not be reduced, and after such occurrence has ceased to exist Second Party shall fulfil its total obligations under the said Section 3 before the ninth anniversary date of the Effective Date or before the expiry of such further period by which the exploration period shall be extended by reason of the force majeure occurrence.	
6. During the first three-year period field exploration operations may not be suspended or stopped for any reason whatsoever except force majeure as provided for in this Agreement. But at the end of the said period and of each of the following six years Second Party may, if it considers that sub-surface conditions of the Assigned Area preclude a reasonable chance of discovering Petroleum in commercial quantities in the said Area, discontinue field exploration operations upon notification of such intention to First Party after proving that up to the date of such notification the field exploration work planned to be carried out has in fact been carried out and that all of the minimum amounts allocated for expenditure during the period	

*Selected Documents — 1971*

prior to such notification have been fully spent (such minimum amounts as specified in the table in Section 3 above for the second and third three-year periods respectively being, for this purpose, allocated equally among each of the three years of each of such periods). However, in the event that there remains an unexpended balance, one half of such balance up to the date of notification shall be paid by Second Party to First Party. Second Party shall deliver to First Party within 30 days after the Effective Date a Letter of Guarantee from a bank acceptable to First Party for the sum of twenty-one million U.S. Dollars (\$21,000,000), being equal to Second Party's minimum exploration obligation for the first three-year period, which guarantee shall be released annually in parts in proportion to each year's actual exploration expenditure.

7. If upon termination of the third three-year period a Commercial Field shall have been discovered but the minimum amount prescribed in Section 3 hereof shall not have been fully spent, Second Party shall pay to First Party one half of the unexpended balance.
8. Second Party shall pay to First Party, in respect of the Assigned Area, when commercial production has been achieved in accordance with Section 2 of Article 29, in advance, the annual Rental in U.S. Dollars equivalent to the amounts as set in Column A below:

<i>Date of Payment</i>	<i>Column A</i> <i>Rental per sq.km.</i>
On the Date of Commencement of Commercial Production and on each succeeding anniversary up to and including the fourth anniversary of such Date	U.S. \$400
On the fifth and each succeeding anniversary up to and including the ninth anniversary	U.S. \$480
On the tenth and each succeeding anniversary up to and including the fourteenth anniversary	U.S. \$600
On the fifteenth and each succeeding anniversary up to and including the nineteenth anniversary	U.S. \$780
The Rental payments effected in accordance with the provisions of this Article shall be included in Second Party's operating cost.	

**ARTICLE 26**

*Taxation*

1. First Party, the entities comprising Second Party and any Trading Company shall with respect to their respective net incomes from the operations authorized under this Agreement be subject to taxation in accordance with the Iranian Income Tax Laws as they may prevail from time to time.

*Iran*

2. The Government of Iran guarantees that First Party, the entities comprising Second Party and any Trading Company shall not be subject to rates of income tax or other provisions governing net income which are less favourable than those to which other companies, engaged in similar operations in Iran, which together produce or cause to be produced more than 50 % of Iranian Crude Oil are subject.
3. INPECO acting solely as a non-profit making agent under this Agreement shall not be liable to taxation and similarly the Joint Structure relationship of the Parties shall not entail any tax obligation.
4. The income tax liability of First Party, the entities comprising Second Party and any Trading Company shall be assessed on the basis of their respective net incomes from the operations authorized by this Agreement, computed in accordance with accounting practices generally accepted in the petroleum industry in Iran.
5. The gross receipts of First Party, each the entities comprising Second Party and any Trading Company in each taxation period shall equal the sum of:
  - (a) The value of First Party's or each entity's share of the Crude Oil supplied by INPECO to First Party for Internal Consumption in Iran, computed at the price established in accordance with Article 21 hereof; and payments received for Natural Gas delivered under Article 22, Section 4 if any; and,
  - (b) In the case of First Party, in respect of sales to each of the entities comprising Second Party in accordance with Section 2 of Article 18, the amount determined in accordance with the said Section; and,
  - (c) The value of all Crude Oil exported by the relevant Party, or entity or by any Trading Company which value shall be computed at the applicable Posted Price on the date of export of the Crude Oil concerned, provided that in the case of any sale taking place prior to such export among the entities comprising Second Party, or between any of such entities and any Trading Company, the value of the Crude Oil shall be the amount of payment received for such Crude Oil by the selling entity.
6. Each Party, or each of the entities comprising Second Party, in determining its net income shall only be entitled to subtract from its gross receipts its share of costs, expenses and charges incurred under this Agreement, as set forth hereunder provided that they are supported by documents or records:
  - (a) Each Party's share or the share of each of the entities comprising Second Party, of all costs and expenses incurred by INPECO necessarily and solely in connection with the carrying out of the operations authorized by this Agreement including administrative overhead and establishment expenses, contributions and rents or other charges for the use of any property, costs of drilling wells not productive of Petroleum in commercial quantities, cost of goods and services, expenditures made for ground, aerial and marine surveys, and for drilling, cleaning, deepening or completion of wells or the preparation therefor, except insofar as such costs and expenditures have been capitalized and an amortization allowance is subtracted on that account.

- (b) An amount in each year for depreciation, obsolescence, exhaustion and depletion of capital expenditure made by INPECO in connection with operations in Iran calculated at a rate of ten percent (10 %) per annum on the original cost thereof.
  - (c) The unapplied part of operating losses of each Party or of each of the entities comprising Second Party sustained in, and carried forward from previous taxation periods, provided that such carrying forward is not more than ten (10) years from the taxation period during which such losses originated.
  - (d) Each Party's share or the share of each of the entities comprising Second Party of losses sustained by the carrying out of operations in Iran and not compensated for by insurance or otherwise, including bad debts, losses resulting from claims for damages arising out of operations in Iran, and losses resulting from damage to, or destruction or loss of, any property used in connection with the said operation in Iran; and
  - (e) With respect to the amortization of exploration expenditures incurred in accordance with the provisions of the Agreement, the share thereof of each party or of each of the entities comprising Second Party shall be the amount in each year equal to one tenth of one half of the amount of the total of said exploration expenditure actually borne or paid by such party or entity.
7. Each of the entities comprising Second Party in addition to the above shall also be entitled to subtract from its gross receipts during each taxation period its applicable share of:
- (a) An amount equal to ten percent (10 %) of any Bonus paid to First Party under Section 2 sub-sections (a) and (c) of Article 25 of this Agreement, until said Bonus has been fully amortized. In addition with respect to the additional cash bonus specified in Article 25, Section 2 (b) Mobil Oil Corporation, or its transferee, shall be entitled to subtract from its gross receipts during each taxation period the full amount of ten percent (10 %) of such cash bonus until said bonus has been fully amortized.
  - (b) The amount of Stated Payments paid in cash or kind under Article 25 of this Agreement.
  - (c) The amounts of Rental Payment as provided for in Article 25 of this Agreement.
  - (d) Any amount paid to First Party for the purchase of its Crude Oil under Section 2 of Article 18.
8. First Party, each of the entities comprising Second Party and each Trading Company shall separately file its own tax statement and pay any tax due.
9. "Trading Company" means any company wherever incorporated, duly registered in Iran, which derives income from selling in Iran Crude Oil produced under this Agreement which it has purchased from First Party or any one or more of the entities comprising Second Party. Any Trading Company may subtract from its gross receipts during each taxation period the amount of the payments made to

*Iran*

First Party or to any of the entities comprising Second Party in respect of any Crude Oil purchased.

10. To the extent that any Trading Company fails to pay the income tax as foreseen in this Agreement due on its taxable income derived from selling in Iran Crude Oil purchased from First Party or any of the entities comprising Second Party, the Party or entity selling to the Trading Company shall make such payment.

**ARTICLE 27**

*Limit of Taxation*

**Except for the following:**

1. income tax payments to be made to Iran in accordance with Iranian income tax laws as specified in Article 26;
2. customs and import duties as applicable pursuant to Article 28 of this Agreement;
3. Stated Payments and other payments to be made to First Party in accordance with this Agreement;
4. payments to the Iranian Government of taxes required to be withheld with respect to compensations and salaries paid to personnel;
5. payment of taxes required to be withheld in respect of payments to contractors or agents for works carried out under this Agreement;
6. non-discriminatory charges and fees for services rendered by Governmental Authorities on request or to the public generally such as tolls, water rates, municipality and sanitary charges and port dues payable by vessels;
7. non-discriminatory taxes and fees of general application such as documentary stamp taxes, civil and commercial registry fees and patent and copyright fees; no payment of tax in any form whatsoever shall be required to be made by either Party to this Agreement or by the entities comprising Second Party or Trading Companies to any governmental authority whether central or local and no taxes or duties shall be imposed on the exports of Petroleum by any of such parties nor on dividends paid by any of them from any income arising as a result of their operations under this Agreement.

**ARTICLE 28**

*Imports and Customs*

1. All machinery, equipment, craft, apparatus, tools, instruments, spare parts, materials, timber, chemicals, blending material and additives, automotive equipment and other vehicles, aircraft, building materials of all descriptions, steelworks, office fittings, equipment and furniture, ship's stores, provisions, protective clothing and equipment,

*Selected Documents — 1971*

instructional equipment, petroleum products not available in Iran and all other articles required exclusively for the efficient and economical conduct and performance of the basic technical operations and functions of INPECO shall be imported without any licence under the name of INPECO free of any customs duties and taxes. The foregoing articles shall include medical, surgical and hospital supplies, medical products and drugs and equipment, furniture and instruments required for the installation and operations of hospitals and dispensaries.

2. INPECO shall with the approval of NIOC have the right to re-export exempt from any export duties and taxes any of the articles it has imported for temporary use.
3. INPECO shall also have the right, subject to approval by NIOC, to sell in Iran such articles as shall have been temporarily imported, it being understood that in any such case it will be the responsibility of the buyer to pay any applicable duties and to comply with any formalities prescribed by the current regulations, and to furnish INPECO with the necessary clearance documents.
4. Such articles as may be considered appropriate for the use or consumption of the employees of INPECO and their respective dependants may be imported subject to the relevant rules and regulations in force in Iran and upon the payment of any import and customs duties and other taxes generally applicable at the time of importation.
5. INPECO undertakes to give preference, in the acquisition of equipment and supplies, to articles made or produced in Iran provided the said articles as compared to similar articles of foreign origin can be acquired on equally advantageous conditions with due regard to their quality, their price, their availability at the time and in the quantities required, and their suitability for the purposes for which they are intended. In comparing the prices of imported articles with that of articles made or produced in Iran account shall be taken of freight and of any customs duty and taxes payable under this Agreement on the imported articles.
6. All imports and exports under this Agreement shall be subject to customs documentation and formalities (but not to any payment from which they are exempt under the relevant provisions of this Agreement) not more onerous than those generally applicable.

**ARTICLE 29**

*Term of Agreement*

1. The term of this Agreement shall extend to twenty years from the Date of Commencement of Commercial Production plus two additional renewal periods of five years each if renewed pursuant to Section 3 below.
2. The Date of Commencement of Commercial Production shall be the date on which there shall have been delivered as regular exports 100,000 cubic meters of Crude Oil from the Assigned Area.

*Iran*

3. Second Party, if it so desires, shall submit its request in writing in respect of each renewal period two years prior to the expiration of the then current term of the Agreement. Such renewal shall be subject to the following provisions.
4. Before each renewal takes place First and Second Parties shall negotiate and revise the Agreement in the light of then prevailing circumstances. The revised Agreement which shall govern the relationship between the Parties during the renewed period shall be based on the most progressive features of the Agreements related to similar oil operations in Iran and shall include the most advantageous to Iran of the terms and conditions of such Agreements.

**ARTICLE 30**

*Termination of Agreement and Liquidation of Assets*

Upon expiry or termination of this Agreement INPECO shall be liquidated and all assets created under this Agreement shall be transferred to NIOC in accordance with the following provisions:

1. All Fixed Assets shall be transferred free of charge.
2. All fully depreciated movable assets shall be transferred free of charge.
3. All movable assets not fully depreciated shall be transferred against payment to Second Party by NIOC of fifty percent (50 %) of the remaining book value of such movable assets.

**ARTICLE 31**

*Transfers*

1. Not later than thirty (30) days after the Effective Date the Japanese companies among the entities comprising Second Party together with Japan Petroleum Development Corporation (a corporation organized and existing under the law of Japan and hereinafter called "JPDC") shall form a new company in Japan under the name of "Iranian Petroleum Corporation" which shall be registered in Iran. The rights and obligations of said Japanese companies under this Agreement shall thereupon be transferred to the Iranian Petroleum Corporation. Neither such transfer nor any such issue of shares as is hereinafter mentioned shall in any way free the Japanese companies among the entities comprising Second Party (hereinafter called "the four original Japanese companies") from the obligations undertaken by them under this Agreement, and they shall always be together with Mobil Oil Corporation severally and collectively responsible vis-à-vis NIOC in respect of the said obligations. In the case of any issue of further shares by the Iranian Petroleum Corporation, such shares may with the prior written approval of NIOC be issued to

*Selected Documents — 1971*

persons other than the four original Japanese companies and JPDC, provided that the percentage of the issued capital of the Iranian Petroleum Corporation held by the four original companies and JPDC is not thereby reduced below eighty-five percent (85 %).

2. Any of the entities comprising Second Party may at any time and from time to time transfer all or any part of the rights acquired and the obligations undertaken by it under this Agreement to:
  - (a) Any company or companies controlling the transferring party.
  - (b) Any company or companies controlled by the transferring party.
  - (c) Any company or companies controlled by any company or companies specified in (a) or (b) above, provided that for the purpose of this Section control of a company shall mean direct or indirect ownership of all of the stock of such company and the transferee is a company satisfying Article 4 of the Petroleum Act. Such transfer shall not in any way free the transferring Party from the obligation undertaken by it under this Agreement.
3. Any transfer by any of the entities comprising Second Party otherwise than as authorized under Sections 1 and 2 above, shall require the prior written approval of First Party, which before granting the said approval shall obtain the confirmation of the Council of Ministers and approval of the legislature.
4. Any merger or amalgamation by any of the entities comprising Second Party or the transferee thereto, shall require the written approval of First Party, which before granting the said approval shall obtain the confirmation of the Council of Ministers.
5. Any transfer made under this Agreement shall be free from all transfer taxes or other payments to the Iranian Government or any subdivision thereof.
6. Any person who becomes a Party to this Agreement by virtue of any transfer, merger or amalgamation under this present Article shall assume all the obligations undertaken by Second Party hereunder.

**ARTICLE 32**

*Force Majeure*

1. No failure or omission by either Party to carry out or to perform any of the terms or conditions of this Agreement shall give the other Party a claim against such Party or be deemed a breach of this Agreement, if and to the extent that such failure or omission arises from Force Majeure. Force Majeure includes but is not limited to strikes, lockouts, labour disturbances, Act of God, unavoidable accidents, acts of war (declared or undeclared) or any other matter reasonably beyond the control of the Parties to this Agreement.

*Iran*

2. More particularly and without limiting the generality of the foregoing, where any Force Majeure occurrence beyond the reasonable control of either Party renders impossible or delays the performance of any obligation or the exercise of any right under this Agreement, then the period whereby such performance or such exercise is delayed shall be added to any relevant period fixed by this Agreement.
3. Nothing contained in this Article shall prevent the Parties from referring to Arbitration under Article 35 hereafter the question of whether or not this Agreement should be dissolved by total impossibility of performance.

**ARTICLE 33**

*Guarantee of Performance and Continuity*

The Ministry of Finance may take any action or give any consent on behalf of the Iranian Government which may be necessary or convenient under or in connection with this Agreement or for its better implementation and any action so taken or consent so given shall be binding upon the Government. All Iranian Authorities shall implement all such instructions as the Ministry of Finance shall give them in connection with the execution and administration of this Agreement and such Authorities shall have full power and authority to do so. If the Ministry of Finance should for any reason no longer exercise its powers and authority under this Article, such powers and authority shall be exercised by such other Ministry or agency as the Council of Ministers shall designate.

The confirmation of this Agreement by the Council of Ministers as provided for by Article 2 of the Petroleum Act shall be considered as acceptance by the Iranian Government of all such obligations as by the terms of this Agreement are laid upon the Government.

**ARTICLE 34**

*Conciliation*

1. If any dispute arises out of the execution or interpretation of this Agreement, the Parties may agree that the matter shall be referred to a mixed conciliation committee composed of four (4) members, two (2) nominated by each Party, whose duty shall be to seek a friendly solution. The conciliation committee, after having heard the representatives of the Parties, shall give a ruling within three (3) months from the date on which the dispute was referred to it. The ruling, in order to be binding, must be unanimous.
2. If the Parties do not agree upon the reference of a dispute to a conciliation committee, or if a dispute is referred to the said Committee but not settled, the sole method of determining shall be arbitration in accordance with Article 35.

## ARTICLE 35

### *Arbitration*

1. Any dispute arising from the execution or interpretation of the provisions of this Agreement shall be settled by an Arbitration Board consisting of three (3) arbitrators. Each of the Parties shall appoint an arbitrator and the two (2) arbitrators before proceeding to arbitration shall appoint a third arbitrator who shall be the president of the Arbitration Board.
2. If one of the Parties does not appoint its arbitrator, or does not advise the other Party of the appointment made by it within two months of the institution of the proceedings, the other Party shall have the right to apply to the President of the Supreme Court of Iran to appoint the second arbitrator.
3. If the two arbitrators cannot within two months from the date of the appointment of the second arbitrator agree on the person of the third arbitrator, the latter shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the Supreme Court of Iran.
4. Any arbitrator appointed by the said President under Sections 2 and 3 above shall be an individual of integrity and appropriate experience and shall not be closely connected with nor have been in the public service of, nor be a national of Iran, Japan nor of the U.S.A.
5. The arbitrators shall notify their acceptance of the nomination to both Parties, and to the President of the Supreme Court of Iran if they shall have been appointed by the said President, within thirty days of receiving notice of their nomination. Failing such notification, it shall be assumed that they have refused the nomination and a new appointment shall be made in accordance with the same procedure.
6. The award which shall be final and binding may be given by a majority of the Arbitration Board. The Parties undertake to comply with it in good faith and either Party may seek execution of the award in any Court having jurisdiction over the Party against whom the execution is sought.
7. The place of arbitration shall be Tehran, Iran unless the Parties agree upon an alternate site.
8. The Parties shall extend to the Arbitration Board all facilities (including access to the Petroleum Operation) for obtaining any information required for the proper determination of the dispute. The absence or default of any Party to an arbitration shall not be permitted to prevent or hinder the arbitration procedure in any or all of its stages.
9. Pending the issue of decision or award, the operations or activities which have given rise to the arbitration need not be discontinued. In case the decision or award recognizes that the complaint was justified, provision may be made therein for such reparation as may appropriately be made in favour of the complainant.

*Iran*

10. The cost of an Arbitration shall be awarded at the discretion of the Arbitration Board.
11. If for any reason a member of the Arbitration Board after having accepted the functions placed upon him is unable or unwilling to enter upon or to complete the determination of a dispute, then unless the Parties otherwise agree, either Party may request the President of the Supreme Court of Iran to appoint a substitute to the said member, in accordance with the regulations laid down in this Article.
12. Wherever appropriate, decisions and awards hereunder shall specify a time for compliance herewith.
13. Either Party may within fifteen (15) days of the date of the communication of the decision or award to the Parties, request the Arbitration Board who gave the original decision or award, to interpret the same. Such a request shall not affect the validity of the decision or award. Any such interpretation shall be given within one (1) month of the date on which it was requested and the execution of the decision or award shall be suspended until the interpretation is given or the expiry of the said month, whichever first occurs.
14. The provisions of this Agreement relating to arbitration shall continue in force notwithstanding the termination of this Agreement.
15. Should the Parties reach an agreement on the issue submitted to the arbitration prior to the issuance of the award by the Arbitration Board, such agreement shall be recorded in the form of an "arbitral award made by consent of the Parties" and the mission of the Arbitration Board shall thus terminate.

**ARTICLE 36**

*Sanctions*

1. In case of failure by Second Party to pay the Bonus and Rentals laid down in Article 25, Sections 2 and 8 on the dates provided for in this Agreement, First Party shall address a written notice of such failure to Second Party. If within one (1) month of the due date, Second Party shall not have made the payment in question increased at a rate equal to twice the highest rate of interest enforced by the Central Bank of Iran in respect of the period of delay, First Party shall be entitled to terminate this Agreement.
2. In respect of the Joint Structure's obligation as laid down in Article 3 to relinquish its rights to parts of the Assigned Area, if Second Party fails within the specified time limits to notify First Party of its views concerning the Parts of the Assigned Area to be relinquished, then First Party shall at its own discretion determine the parts to be relinquished. Such determination shall be final, and with effect from the date of notice thereof such parts as shall have been determined by First Party shall be regarded as excluded from the Assigned Area.

*Selected Documents — 1971*

3. In the case of failure by Second Party to carry out the drilling obligation undertaken under Section 2 of Article 15 Second Party shall forfeit out of the Guarantee referred to in Article 25, Section 6 a sum of three hundred and fifty thousand U.S. Dollars (\$350,000) per month of delay not excused by force majeure. If within a period of six (6) months from the specified time limit the obligation shall still be outstanding, First Party shall be entitled to terminate this Agreement and to confiscate from the Guarantee as per Article 25, Section 6 all unexpended exploration expenditure obligation pertaining to the first three (3) years.
4. The provisions of Article 32 relating to force majeure shall apply to the cases envisaged by this Article.

**ARTICLE 37**

*NIOC's Prerogatives*

NIOC acting on behalf of the Imperial Government of Iran shall exercise the following measures of control:

1. NIOC shall determine methods and means of measurement of Petroleum produced and/or exported under the provisions of this Agreement.  
Petroleum exported shall be verified and certified by NIOC for fiscalization.
2. Second Party shall provide all particulars which may be required by NIOC in respect of Petroleum exported by it.
3. INPECO shall comply with principles of conservation of natural resources and in conduct of its operations always shall be mindful of the best interest of Iran.  
NIOC shall exercise all necessary controls for supervision required to ensure full compliance with such principles.
4. NIOC shall be authorized to grant certain discounts in cases where Second Party has purchased any part of First Party's 50 % share of Crude Oil under Section 2 of Article 18 of this Agreement. Such discount however shall in no circumstances apply to Second Party's own 50 % share of Crude Oil.  
The amount of discount in each case shall be determined with a view to ensuring that no actual loss is sustained by Second Party as a result of its obligation to purchase First Party's share of Crude Oil.
5. NIOC in addition to deliberations of the Audit Board and notwithstanding various provisions of this Agreement shall have complete access to books and accounts of INPECO.

**ARTICLE 38**

*Applicable Law*

This Agreement shall be governed by and interpreted according to the Laws of Iran, and where this Agreement is silent, the provisions of the Petroleum Act shall apply.

*Iran*

**ARTICLE 39**

*Language of Text*

The Persian and English texts of this Agreement are both valid. In case of dispute which is referred to arbitration, both texts shall be laid before the Arbitration Board who shall interpret the intention of the Parties from both texts.

**ARTICLE 40**

*Notices*

All notices required or permitted hereunder shall be in writing in the English language and may either be served personally upon an authorized representative of a Party or be served by air mail, telegram, cable or telex (confirmed by mail in any of the last three cases) at such Party's address hereinafter specified or such other address as such Party may have notified in writing to the other. A notice served by air mail, telegram, cable or telex shall be deemed to be served at the time when in the ordinary course of such mail or transmission (as the case may be) it would be received.

NATIONAL IRANIAN OIL COMPANY  
AVENUE TAKHTE-DJAMSHID  
TEHRAN  
IRAN

TEIJIN LIMITED  
Petroleum Exploitation Division  
1-1, 2-chome, Uchisaiwai-cho,  
Chiyoda-ku, Tokyo, JAPAN.

NORTH SUMATRA OIL DEVELOPMENT  
COOPERATION CO., LTD.  
No. 17, Akefune-cho, Shiba-Nishikubo,  
Minato-ku, Tokyo, JAPAN.

MITSUI & CO. LTD.  
Petroleum Department  
2-9, Nishi Shimbashi Itchome,  
Minato-ku, Tokyo, JAPAN.

MITSUBISHI SHOJI KAISHA LTD.  
Project & Development Department  
6-3, Marunouchi 2-chome,  
Chiyoda-ku, Tokyo, JAPAN.

*Selected Documents — 1971*

MOBIL OIL CORPORATION  
150 East 42nd Street,  
New York, New York, 10017,  
U.S.A.

Executed and delivered in Tehran on November 1971.  
NATIONAL IRANIAN OIL COMPANY

By  
Chairman of the Board and General Managing Director

TEIJIN LIMITED

By  
Attorney-in-fact

NORTH SUMATRA OIL DEVELOPMENT COOPERATION CO., LTD.

By  
Attorney-in-fact

MITSUI & CO., LTD.

By  
Attorney-in-fact

mitsubishi shoji kaisha ltd.

By  
Attorney-in-fact

MOBIL OIL CORPORATION

By  
Attorney-in-fact

*SCHEDULE A*

The boundary of the Assigned Area as referred to in Article 3 of the Agreement is described as follows:

*Iran*

**Block One**

Starting from point (A) with approximate geographical coordinates:

33° 35' 00" North Latitude  
45° 59' 12" East Longitude

thence Northwesterly on a straight line to point (2) with approximate geographical coordinates:

34° 08' 00" North Latitude  
45° 55' 00" East Longitude

thence Southeasterly on a straight line to point (F) with approximate geographical coordinates:

33° 37' 36" North Latitude  
46° 42' 42" East Longitude

thence Southwesterly on a straight line to point (G) with approximate geographical coordinates:

33° 19' 00" North Latitude  
46° 32' 42" East Longitude

thence Northwesterly on a straight line to point (A), the point of beginning:

**Block Two**

Starting from point (2) with approximate geographical coordinates:

34° 08' 00" North Latitude  
45° 55' 00" East Longitude

thence Northwesterly on a straight line to point (3) with approximate geographical coordinates:

34° 30' 00" North Latitude  
45° 40' 00" East Longitude

thence due East on a straight line to point (4) with approximate geographical coordinates:

34° 30' 00" North Latitude  
46° 00' 00" East Longitude

thence Southeasterly on a straight line to point (5) with approximate geographical coordinates:

34° 02' 18" North Latitude  
46° 56' 18" East Longitude

*Selected Documents — 1971*

thence Southwesterly on a straight line to point (F) with approximate geographical coordinates:

33° 37' 36" North Latitude

46° 42' 42" East Longitude

thence Northwesterly on a straight line to point (2), the point of beginning.

## CHAPTER IV

### Iraq

#### LAW No. 33 OF 1971

*Ratification of the Agreement concluded between the Iraq Government and the Oil Companies operating in Iraq.*

#### ARTICLE 1

The Agreement entered into between the Iraq Government and the Iraq Petroleum Company Limited, the Mosul Petroleum Company Limited and Basrah Petroleum Company Limited, signed on 22/2/1971 by the Minister of Finance and the Under-Secretary for Ministry of Oil and Minerals, on behalf of the Iraq Government, and by the representative of the three oil companies mentioned above on behalf of these companies, is hereby ratified.

#### ARTICLE 2

This Law shall come into force as from the date of its publication in the Gazette.

#### ARTICLE 3

The Ministers are charged with the execution of this Law.

Made at Baghdad this 29th day of Dhi-Al-Hijja, 1390, and the 25th day of February, 1971.

Ahmed Hassan Al-Baker  
Chairman of the Revolutionary Command  
Council

This Agreement is made the Twenty-Second day of February 1971 between THE GOVERNMENT OF IRAQ (hereinafter called "THE GOVERNMENT") of the one part and THE COMPANIES (which expression means Iraq Petroleum Company

*Selected Documents — 1971*

Limited, Mosul Petroleum Company Limited and Basrah Petroleum Company Limited and such of their Shareholders as were parties to the Teheran Agreement and such of the affiliates of such Shareholders as are responsible for tax payments or make-up payments in respect of the operating ventures in Iraq of Iraq Petroleum Company Limited, Mosul Petroleum Company Limited and Basrah Petroleum Company Limited) of the other part.

**ARTICLE 1**

In this Agreement:

1. "The Teheran Agreement" means the Agreement signed on 14th February, 1971, in Teheran between representatives of Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia and representatives of a number of oil companies (which included "The Companies" as defined in the preamble hereto) as qualified, so far as concerns Iraq, by the terms of the Iraq Letter and a further letter dated 14th February, 1971, addressed to the Representatives of Abu Dhabi, Iraq and Qatar.
2. "The Iraq Letter" means the letter dated 14th February, 1971, signed in Teheran on behalf of Iraq Petroleum Company Limited, Mosul Petroleum Company Limited and Basrah Petroleum Company Limited addressed to His Excellency Dr. Saadoun Hamadi, Minister of Oil and Minerals, Baghdad.

**ARTICLE 2**

1. THE GOVERNMENT and THE COMPANIES hereby declare their respective intentions fully to implement the provisions of the Teheran Agreement in all respects as it affects the operating ventures in Iraq of Basrah Petroleum Company Limited and the rights and obligations of THE GOVERNMENT and THE COMPANIES arising therefrom.
2. In pursuance of the above intentions, but without limiting their generality, the provisions of Para 4 of the Iraq Letter shall take effect:
  - (a) In relation only to the profits resulting from the operations of Basrah Petroleum Company Limited in relation to the export of crude oil from the Gulf, and
  - (b) From the 14th day of November 1970 and the financial arrangements between the parties shall be read and construed accordingly.
3. THE GOVERNMENT and THE COMPANIES hereby acknowledge that the amendment contained in Para 2 above constitutes implementation of the agreement contained in Para 4 of the Iraq Letter and settlement of the matter referred to in Para (iv) of the Iraq Letter.

**ARTICLE 3**

This Agreement has been drawn up in the Arabic and English languages, both texts having equal validity.

*Iraq*

This Agreement shall come into effect immediately upon the publication in the Gazette of a law ratifying this Agreement.

Signed by:

On behalf of the Government

A. Abdul Karim

Minister of Finance

In the presence of

Hussain Hassan Ghulam

Under-Secretary of the

Ministry of Oil and Minerals

On behalf of the Companies

Geofrey Stockwell

In the presence of

C. E. Hahn

**LAW No. 76 OF 1971  
AMENDING  
LAW No. 123 OF 1967  
ESTABLISHING THE IRAQ NATIONAL OIL COMPANY**

**ARTICLE 1**

Paragraph (1) of Article 11 of Law No. 123 of 1967 shall be deleted and substituted by the following:

1. The management of the Company and the attainment of its objectives shall be undertaken by an administratively and financially independent Board of Directors. The Board shall exercise all the powers and rights vested in the Company under the laws in force and within the general oil policy of the state of which the execution is supervised by the Minister, whether such rights and powers pertain directly to the Company or to its branches, agencies, owned companies, affiliated companies or attached organizations.

The Board shall decide upon the Company's organizational structure, divisions, departments and sections at its headquarters and elsewhere, as well as upon the carrying out of different projects and shall supervise the implementation of the same; it may delegate powers or authority, as it deems fit, to the President, Vice President, Managing Director or General Manager.

*Selected Documents — 1971*

The Board may delegate one of its members or other person to deal with matters entrusted to him. It may form sub-committees or advisory committees from among its members or other persons to deal with matters entrusted to them. It may also appoint advisors on all matters pertaining to the Company's operations, grant appropriate powers for such purposes and fix the remuneration for those carrying out the above-mentioned tasks.

**ARTICLE 2**

The phrase "the decisions of the Company's Board of Directors shall become effective upon issuance with due regard to the following" mentioned in Article 15 of the Law, shall be deleted.

**ARTICLE 3**

Paragraph (1) of Article 16 of Law No. 123 of 1967 shall be deleted and substituted by the following:

1. The Company shall adhere to the general oil policy of the state, the execution of which is supervised by the Minister. In the event of disagreement between the Minister and the Company, the matter shall be submitted to the President of the Republic, or to whom he may authorize, and his decision shall be final.

**ARTICLE 4**

The following Article shall be added to the Law and considered Article 17 thereof, and the sequence of the following Articles shall be amended accordingly:

**Article 17**

1. The decisions of the Board shall be submitted, before their implementation, to the Minister for approval and shall be considered approved unless the Minister objects thereto within fifteen days from the date of their registration at the head office of the Ministry.
2. If the Minister objects to the decision, the same shall be returned to the Board for consideration at the first meeting it shall hold. If the Board insists upon its decision and the Minister does not approve it, the matter shall be submitted to the President of the Republic, or to whom he may authorize, and his decision shall be final.
3. The Minister may authorize the Board to implement some of its urgent decisions without awaiting the approval of the same by him, and shall specify, in the letter of authorization, nature of such decisions, provided that copies thereof shall be sent to the Minister for information.

**ARTICLE 5**

This Law shall come into force from the date of its publication in the Gazette.

*Iraq*

## ARTICLE 6

The Ministers are charged with the execution of this Law.

Made in Baghdad on this 7th day of Rabie Al-Awwal, 1391, the 2nd day of May, 1971.

Ahmed Hassan Al-Baker,  
Chairman of the Revolutionary Command  
Council

## LAW No. 89 OF 1971

*Ratification of the East Mediterranean Agreement between the Iraq Government and the Oil Companies operating in Iraq.*

## ARTICLE 1

The East Mediterranean Agreement entered into between the Iraq Government and the Iraq Petroleum Company Ltd., the Mosul Petroleum Company Ltd., and the Basrah Petroleum Company Ltd., signed in Baghdad on 7/6/1971 by the Minister of Oil and Minerals, on behalf of the Iraq Government, and by the representative of the three Companies mentioned above on behalf of these Companies, is hereby ratified.

## ARTICLE 2

This Law shall come into force as from the date of its publication in the Gazette.

## ARTICLE 3

The Ministers are charged with the execution of this Law.

Made at Baghdad this 15th day of Rabie Al-Thani, 1391, and the 8th day of June, 1971.

Ahmed Hassan Al-Baker  
Chairman of the Council of Revolutionary  
Command

EAST MEDITERRANEAN AGREEMENT

AGREEMENT between the Government of Iraq (hereinafter called "the Government") and the Companies (which expression means Iraq Petroleum Company Limited, Mosul Petroleum Company Limited and Basrah Petroleum Company Limited [hereinafter referred to respectively as "the Iraq Company", "the Mosul Company" and "the Basrah Company"] and such of their Shareholders and affiliates of their Shareholders as are responsible for tax payments or make-up payments in respect of the operating ventures in Iraq of the Iraq Company, the Mosul Company and the Basrah Company).

1. The existing arrangements between the Government and the Companies to which this Agreement is an overall amendment will continue to be valid in accordance with their terms.
2. (a) With effect from the Operative Date and during the term of this Agreement "Posted Prices" for the purposes of the existing financial arrangements between the parties shall be the prices calculated in accordance with the Annex hereto for the Iraq crude oil referred to therein.  
(b) With effect from the 14th day of November 1970 the Government's share in relation to the profits resulting from the operations of the Iraq Company, the Mosul Company and the Basrah Company in Iraq shall for the purpose of the financial arrangements between the parties be equal to 55 %.  
(c) The existing deduction for selling expenses shall be permanently eliminated as from the Operative Date.
3. The provisions of the existing arrangements as amended by this agreement constitute a settlement of the terms relating to Government take and other financial obligations of the Iraq Company and the Mosul Company as to the subject matters referred to in OPEC Resolutions including without limitation OPEC Resolutions XXI. 120 and XXII. 131 and as regards oil exported across the Iraq/Syrian frontier for the period from the Operative Date through December 31, 1975. These provisions shall be binding on both the Government and the Companies for the said period.
4. The Government accepts that the Companies' undertakings in this Agreement constitute a final settlement, in respect of the period up to the Operative Date, of the following matters: (i) levels of posted prices of crude oil exported by the Iraq Company and the Mosul Company and values thereof; (ii) applicable bases and rates of Government share and taxation.
5. The terms of this Agreement shall not in any way prejudice the claims and contentions of all or any parties or party hereto relating to:  
(a) expensing of royalty;  
(b) adjustments of selling expenses prior to the respective effective dates of the Teheran Agreement and this Agreement.
6. The Operative Date for the purposes of this Agreement shall be the 20th day of March 1971.
7. This Agreement has been drawn up in the Arabic and English languages, both texts having equal validity.

*Iraq*

8. This Agreement shall become effective on the date of publication in the Gazette of a law ratifying this Agreement.

Signed on the 7th day of June 1971.

Saadoun Hammadi,  
On behalf of the  
Government of Iraq  
in the presence of:  
F. Chalabi

Geoffrey Stockwell  
On behalf of the  
Companies  
in the presence of:  
Cedric Ernest Hahn

**ANNEXED TO THE AGREEMENT**

**Price Schedule for Iraq Crude Oil Exported from Eastern Mediterranean Terminals**

The Posted Price of \$3.09 for 36.00 Iraq crude oil exported from Eastern Mediterranean Terminals from the Operative Date through 30th June 1971 shall be composed of the following:

Base Posting	\$2.85
Suez Canal Allowance	\$0.12
Temporary Freight Premium	\$0.12
Total Posting	\$3.09

**1. Base Posting**

- A. The Base Posting will be increased or decreased by 0.15 cents per barrel for each full 0.1 degree increase or decrease of API gravity.
- B. The Base Posting will be increased as from the Operative Date by

- (i) 5 cents per barrel, and
- (ii) an amount equivalent to  $2\frac{1}{2}\%$  (computed to the nearest tenth \* of a cent) of the Base Posting of \$2.85 stated above;

The Base Posting will be further increased on the 1st January of each of the years 1973 through 1975 by:

- (i) 5 cents per barrel, and
- (ii) an amount equivalent to  $2\frac{1}{2}\%$  (computed to the nearest tenth \* of a cent) of the posted price prevailing on 31st December of the preceding year less any Suez Canal Allowance and Temporary Freight Premium under 2 and 3 below which may be included in such prevailing price.

**2. Suez Canal Allowance**

The Suez Canal Allowance of 12 cents will be reduced to 4 cents effective on the first day that the Suez Canal is open for passage of commercial ships to a draft of 37 feet and will be eliminated entirely on the first day that the Suez Canal is open for passage of commercial ships to a draft of 38 feet; provided that if the

\* For each decimal fraction of a cent of 0.05 cents or above the amount is to be increased to the next higher 0.1 cent. For each decimal fraction of a cent below 0.05 cents the amount is decreased by this fraction.

*Selected Documents — 1971*

Suez Canal opens and the Suez Canal Authority at any time formally announces that the Canal is not to be deepened to a draft of 38 feet any Suez Canal Allowance shall terminate on the date of such announcement.

3. **Temporary Freight Premium**  
The Temporary Freight Premium shall be 12 cents included in the \$3.09 Posted Price for the period from the Operative Date through 30th June 1971. Subsequently this premium will vary from calendar quarter to calendar quarter (with corresponding variations in total Posted Prices) according to the following:
  - (a) In each subsequent calendar quarter (the quarter of application) the Temporary Freight Premium will be calculated at 0.053 cents per barrel for each 0.1 percentage point of Worldscale by which the Assessed LR 2 AFRA exceeds Worldscale 72. The result shall be rounded to the nearest one tenth of a cent per barrel \*. The Temporary Freight Premium shall not be applicable unless the Assessed LR 2 AFRA is greater than Worldscale 72.  
Worldscale refers to the "Worldwide Tanker Nominal Freight Scale" issued jointly by the Association of Ship Brokers and Agents, Inc., and the International Tanker Nominal Freight Scale Association Limited.
  - (b) Assessed LR 2 AFRA means the arithmetical average of the average freight rate assessments ("AFRA") expressed in percentage points of Worldscale as published by the London Tanker Brokers Panel for Large Range 2 vessels on or about the first day of each of the three months preceding the quarter of application.
4. The U.S. dollar prices per barrel calculated in accordance with the foregoing provisions shall be converted to "Posted Prices" in sterling per long ton in the manner provided in the existing financial arrangements.

LAW No. 106 OF 1971

FIRST AMENDMENT TO LAW No. 229 FOR 1970  
CONSERVATION OF PETROLEUM RESOURCES AND  
HYDROCARBON MATERIALS

ARTICLE 1

The word "verbal" mentioned in Paragraph (A) of Article 12 of Law for Conservation of Petroleum Resources and Hydrocarbon Materials No. 229 for 1970 shall be deleted and shall be substituted by the word "written."

---

\* For each decimal fraction of a cent of 0.05 cents or above the amount is to be increased to the next higher 0.1 cent. For each decimal fraction of a cent below 0.05 cents the amount is decreased by this fraction.

*Iraq*

**ARTICLE 2**

The following Paragraph shall be added at the end of Article 14 of the said Law to read as Paragraph (g):

“(g) Provide the Ministry with the samples, surveys and logs mentioned in paragraphs (d) and (e) of this Article within a period of (45) days from the date of completion, abandonment, suspension, work-over, or recompletion of any well provided that these samples, surveys and logs are delivered to the Ministry in a way which would ensure their preservation with a view to conducting various studies thereof and in accordance with the sound methods employed in the oil industry.”

**ARTICLE 3**

The word “minerals” shall be added after the word “gas” mentioned in paragraph (b) of Article 15 of this Law.

**ARTICLE 4**

This Law shall come into effect as from the date of its publication in the Official Gazette.

**ARTICLE 5**

The Minister of Oil and Minerals is charged with the execution of this Law.

Made at Baghdad this 28th day of Rabie Al-Thani, 1391, and the 21st day of June, 1971.

Chairman of the Council of  
Revolutionary Command  
Ahmed Hassan Al-Baker

**LAW No. (149) OF 1971**

**THE FOURTH AMENDMENT TO LAW No. (123) OF 1967  
ESTABLISHING THE IRAQ NATIONAL OIL COMPANY**

**ARTICLE 1**

1. Paragraph (2) of Article (12) of Law No. (123) of 1967 establishing the Iraq National Oil Company shall be deleted and substituted by the following:

*Selected Documents — 1971*

2. Three Vice Presidents, one of them for technical affairs, the second for financial and commercial affairs, and the third for agreements and conferences.  
They shall assist the President in the performance of his duties and exercise such powers as may be delegated to them by the President. In the event of the absence of the President, the Vice President for technical affairs shall exercise his powers.
2. Paragraph (3) of Article (12) of the Law shall be deleted and substituted by the following:
  3. Three Members on a part time basis.
3. Paragraph (5) of Article (12) of the Law shall be deleted and substituted by the following:
  5. Two officials from among the Company's senior officials, provided that none of them shall be lower in rank than a director general.
4. Paragraph (6) of Article (12) of the Law shall be deleted and substituted by the following:
  6. Two Reserve Members, one or both of whom shall be invited whenever one of the Board Members is absent, including the President.
5. The following paragraph shall be added to Article (12) of the Law and shall form paragraph (7) thereof:
  7. In the event of the absence of the President and Vice Presidents, the President of Republic shall appoint a Deputy President, who shall enjoy all the powers of the President during his absence.

**ARTICLE 2**

1. The term (Vice President) mentioned after the word (the President) at the beginning of Article (13) of the Law shall be deleted and substituted by the phrase (and Vice Presidents).
2. Paragraph (1-a) of Article (13) of the Law shall be deleted and substituted by the following:
  - (1-a) The President and Vice Presidents shall be appointed for a period of five years, renewable, provided that each of them shall be a holder of a first university degree of specialization with a minimum of ten years of pensionable service or practical experience.
3. Paragraph (1-c) of Article (13) of the Law shall be deleted and substituted by the following:
  - (1-c) The nominal salary of each Vice President shall be fixed at no more than Two Hundred and Thirty Dinars plus allowances not exceeding Forty-Five Dinars.
4. The phrase (or Vice President) mentioned after the word (the President) at the beginning of paragraph (3) of Article (13) of the Law shall be deleted and substituted by the phrase (or Vice Presidents).

*Iraq*

### ARTICLE 3

Paragraph (1) of Article (14) of the Law shall be deleted and substituted by the following:

1. A quorum of six members is required for a meeting of the Board, provided that the President or one of the Vice Presidents or their substitutes shall be among those present. The decisions shall be adopted by a majority vote comprising a minimum of five votes. In case of equality the President shall have the casting vote.

### ARTICLE 4

The word (authorized) shall be added after the phrase (or Vice Presidents) mentioned after the word (the Company) at the beginning of paragraph (2) of Article (16) of the Law.

### ARTICLE 5

1. Paragraph (9) of Article (19) of the Law shall be deleted and substituted by the following:
  9. Establishment of a vocational training and petroleum education organization, headed and administered by an official with the grade of Director in the Company, to undertake the attainment of the objectives set forth in the preceding paragraphs. He shall be directly attached to the Company's President or to one of the Vice Presidents or their substitutes, in order to enable the organization to rise to its responsibilities.
2. Paragraph (10-b) of Article (19) of the Law shall be deleted and substituted by the following:(10-b) Construction of the abovementioned residential areas and supervision of their maintenance shall be assigned to a directorate general directly attached to the President or to one of the Vice Presidents or their substitutes.

### ARTICLE 6

This Law shall come into force as of the date of its publication in the Official Gazette.

### ARTICLE 7

The Ministers are charged with the execution of this Law.

Made at Baghdad this 21st day of Ramadan, 1391, the 9th day of November, 1971.

Ahmed Hassan Al-Beker  
Chairman of the Council of the  
Revolutionary Command

*Selected Documents — 1971*

LAW No. 160 OF 1971

*Ratification of the Agreement on Economic and Technical Cooperation in the Development of National Oil Industry in the Republic of Iraq, concluded between the Ministry of Oil and Minerals in the Republic of Iraq and the Ministry of Mines, Petroleum and Geology of the Socialist Republic of Romania.*

ARTICLE 1

The Agreement on Economic and Technical Cooperation in the Development of National Oil Industry in the Republic of Iraq, concluded between the Ministry of Oil and Minerals of the Republic of Iraq and the Ministry of Mines, Petroleum and Geology of the Socialist Republic of Romania, and signed in Baghdad on 28 October 1971 by the representatives of the said two ministries, shall be hereby ratified.

ARTICLE 2

This Law shall come into force as from 1st December 1971.

ARTICLE 3

The Ministers are charged with the execution of this Law.

Made in Baghdad this 10th day of Thul-Qiada 1391, the 27th day of December 1971.

Ahmed Hassan Al-Beker  
Chairman of the Revolutionary Command  
Council

**AGREEMENT ON ECONOMIC AND TECHNICAL COOPERATION IN THE  
DEVELOPMENT OF NATIONAL OIL INDUSTRY IN THE REPUBLIC OF  
IRAQ**

The Ministry of Mines, Petroleum and Geology of the Socialist Republic of Romania (MMPG) and the Ministry of Oil and Minerals of the Republic of Iraq (NAFTIYAH) guided by the relations of friendship and cooperation existing between the two Parties have agreed as follows:

ARTICLE 1

MMPG and NAFTIYAH shall cooperate in the development of national oil, gas and mineral industry in the Republic of Iraq. To this end the respective Romanian specialised organisations shall:

*Iraq*

1. Carry out petroleum operations in the area or areas agreed upon with IRAQ NATIONAL OIL COMPANY (INOC) in the specific contracts. The said petroleum operations shall cover all geological, geophysical survey, drilling operations, technical assistance (including studies, project reports and technical documentation), supply of drilling rigs and equipment, supply and construction of installation for the production of oil and gas and its transportation from the oil field to a terminal or a delivery point specified by INOC, supply of spare parts, stand-by equipment and consumable materials for a period of two years of operation and training of Iraqi personnel.
2. Supply and construction of installation for the refining and distribution of petroleum or mineral products, supply and delivery of machines, equipment, and separate units such as tank farms and filling stations as well as the execution of services in the field of refining and distribution of petroleum or mineral products.
3. Cooperate in the establishment of joint refineries in Romania, Iraq or other countries. Specific contracts shall be entered into between the Romanian and Iraqi specialised organisations regarding performance of the cooperation under the terms of this Agreement specifying the scope of each work to be carried out. The work may be carried out on a turn-key or other basis as agreed in each specific contract. The specific contracts shall be entered into within a period of five years from the date of coming into force of this Agreement.

**ARTICLE 2**

MMPG shall provide a credit of (35) thirty-five million U.S. dollar. This credit shall be utilised to finance the deliveries and operations relating to INOC stated in Para 1 Article 1 of this Agreement except:

1. Local expenses in Iraq shall be financed by INOC in Iraqi Dinar.
2. The value of deliveries and services from third countries needed for completion of the work shall be financed by INOC to the extents stated in the specific contracts, provided that such deliveries and services from third countries are limited to the minimum which cannot be supplied from Romania.
3. A proportion of the salaries of Romanian specialists which is required for their living expenses in Iraq. Such proportion will be stated in the specific contracts and will be paid by INOC in Iraqi Dinar.
4. Transportation expenses of deliveries from Romanian territory into Iraq and transportation expenses of Romanian specialists where such transportation is not carried out through Romanian lines.
5. Expenses of Iraqi trainees outside Romania including their travelling expenses to and from Romania.
6. The cost (f.o.b. Romania) of production tubing, casing and line pipe manufactured in Romania which will be paid in crude oil by INOC.

*Selected Documents — 1971*

In case the credit provided under this Agreement is insufficient to cover the expenses of operations by the Romanian specialised organisations, the MMPG shall consider the increase of the credit to an appropriate level.

The Credit required to finance the operations contained in Paras 2 and 3 of Article 1 of this Agreement shall be established by a separate protocol under this Agreement.

**ARTICLE 3**

Repayment of the Credit mentioned in Article 2 of this Agreement and the interest accrued thereon shall be effected by deliveries of crude oil produced from the area/or areas referred to in Para 1 Article 1 of this Agreement and/or by any other oil available to INOC.

The prices of oil shall be the prices realized on the free international oil market at the port of shipment and shall be determined in accordance with procedures to be agreed upon between the two parties in the general sales contract. Such procedures shall take into consideration actual prices of oil sold by INOC and those of oil purchased by the Romanian specialised organisation under similar conditions, it being understood that such prices shall be internationally competitive.

**ARTICLE 4**

A general sales contract shall be entered into between the Romanian specialised organisation and INOC regarding the delivery of crude oil in accordance with the terms of this Agreement. The said general sales contract shall be signed prior to the signature of the specific contracts under this Agreement and shall contain provisions for the agreement annually by the Romanian specialised organisation and INOC upon price and delivery appendices. Prices of the crude oil in relation to the year 1972 shall be agreed upon at the time of entering into the general sales contract.

**ARTICLE 5**

The specific contracts for the geological and geophysical exploration as well as drilling exploratory wells shall be made within three months from the date of coming into force of this Agreement. Other contracts shall be made soon after the result of exploration or studies are established and found to be mutually acceptable.

**ARTICLE 6**

1. The prices in each specific contract regarding equipment, materials, construction costs, and technical assistance etc., shall be internationally competitive and be established by direct negotiations between the Romanian and Iraqi specialised organisations.
2. Local services and supplies undertaken by sub-contractors shall be subject to approval by the Iraqi specialised organisations. The specific contracts shall indicate the manner in which such approval is obtained.

*Iraq*

**ARTICLE 7**

MMPG shall guarantee:

1. That the technical specification of machinery, equipment, apparatuses, and materials shall be in conformity with the acceptable standards and/or specifications in the international petroleum industry.
2. The supply of future requirement of spare parts, stand-by equipment and consumable materials for the deliveries, projects, and works implemented under this Agreement.

**ARTICLE 8**

The utilised Credit shall bear interest at the rate of 2½ % (two and a half percent) per annum which shall be calculated as from the date of consolidation of the appropriate part of the Credit in accordance with Paras 1 and 2 of Article 9 hereunder.

**ARTICLE 9**

1. Repayment of the utilised parts of the credit shall be effected in seven equal annual instalments counted after the date of consolidation of the respective part of the Credit.
2. The amount of the utilised Credit shall be consolidated on the 30th June and 31st December of each calendar year. On each of the two abovementioned dates, the total value of invoices that had been charged to the Credit during the previous six months shall be consolidated and each respectively divided into seven equal annual instalments.
3. The first instalment relating to the Credit consolidated on the 30th June will fall due on the next 30th June. Similarly, the first instalment relating to the Credit consolidated on the 31st December will fall due on the next 31st December.  
To each instalment shall be added the interest related to that instalment.
4. At maturity dates, instalments and interest shall be placed in a special account available for the purchase of crude oil from INOC. Oil deliveries shall be in accordance with the provisions of the general sales contract and the price and delivery appendix thereunder.
5. INOC has the right to repay the utilised part of the credit and respective interest at earlier dates than those stipulated under this Agreement.
6. The general sales contract shall contain provisions to allow the spread of shipments over the year and also to allow for the carrying forward of small balances which were not provided for in the agreed price and delivery appendix.
7. If under an agreed price and delivery appendix, INOC fails to deliver the crude oil within a year from the date of maturity of instalment and interest, then INOC shall pay the instalment and interest in U.S. dollars.

## ARTICLE 10

With the object of recording the utilisation and repayment of the Credit and interest accrued on it, the Romanian Bank for Foreign Trade and the Central Bank of Iraq shall mutually establish the banking procedure for accounting for the Credit, interest and repayment. Such procedure shall be based on the following arrangements upon which both MMPG and NAFTIYAH have agreed:

1. In order to record the credit utilisation, a "Credit Account" is established in the books of the Romanian Bank for Foreign Trade in U.S. dollar in the name of the Central Bank of Iraq. To the debit of this account shall be recorded all the amounts utilised of the Credit in accordance with the specific contracts.
2. In order to record the repayment of the Credit and interest, a "Credit Repayment Account" is established in the books of the Central Bank of Iraq in U.S. dollar in the name of the Romanian Bank for Foreign Trade.  
To the credit of this Account shall be recorded all instalments and interest at the date of maturity of individual instalments and interest.  
To the debit of this Account shall be recorded the value of crude oil deliveries in accordance with the general sales contract and price and delivery appendices when these deliveries are made in repayment of the Credit.
3. That both Accounts shall be kept free of commissions and bank charges.
4. The "Credit Repayment" shall be subject to simple interest at the rate of  $2\frac{1}{2}\%$  (two and a half percent) per annum on any outstanding balance.
5. For the purpose of repayment of the Credit and for interest, the date of acceptance by the Central Bank of Iraq of invoices and documents relating to the crude oil shall be the effective date for repayment of instalments and interest.
6. The Iraqi specialised organisations shall authorise the Romanian Bank for Foreign Trade through the Central Bank of Iraq to accept and debit to the "Credit Account" invoices and documents for Romanian works, deliveries and services, issued in accordance with the specific contracts.
7. The Romanian specialised organisations shall authorise the Central Bank of Iraq through the Romanian Bank for Foreign Trade to:
  - Credit the amounts of instalments and interest maturity and
  - To accept and debit to the "Credit Repayment Account" invoices and documents for deliveries of the crude oil made in repayment of the credit issued in accordance with the price and delivery appendices.

## ARTICLE 11

1. All contracts, invoices and documents relating to the deliveries and services under this Agreement shall be expressed in U.S. dollar. However where some deliveries and services are stated to be payable in Iraqi Dinar, then invoices and documents relating thereto shall be expressed in Iraqi Dinar.

*Iraq*

2. In order to avoid that any devaluation or revaluation of the U.S. dollar (this Agreement is based on a gold equivalent of 0.888671 grams of fine gold for one U.S. dollar but the equivalent should also be stated in each specific or sales contract) should be detrimental to either party, all amounts shall be amended in consequence of such devaluation or revaluation.

This Article shall particularly be applicable to the following:

- unpaid balance of Credit and interest.
- all amounts corresponding to the value of deliveries (including crude oil) already made and not yet recorded.
- all amounts corresponding to the value of deliveries (including crude oil) still to be effected in accordance with the contracts concluded under Agreement.
- letters of credit, payment instruments and securities, if any, established under this Agreement.

**ARTICLE 12**

1. The Romanian specialised organisation shall buy and receive annually from INOC over the period of validity of this Agreement a quantity of crude oil which shall be established for each year in accordance with the available funds resulting from Romanian deliveries, works and services under this Agreement.
2. The Romanian specialised organisation shall buy and receive annually from INOC over the period of validity of this Agreement a quantity of crude oil established to lead to a balanced payment account between the Socialist Republic of Romania and the Republic of Iraq. The purchase of crude oil under this Paragraph, subject to approval by INOC, shall be applied in repayment of Romanian deliveries and services otherwise than under this Agreement. In such cases the Romanian and Iraqi specialised organisations shall discuss and agree the terms of such application of the value of the crude oil in each case.
3. The crude oil shall be delivered by INOC on terms f.o.b. Arabian Gulf and/or Mediterranean ports as available to INOC. The Romanian specialised organisation may re-export or exchange the crude oil delivered f.o.b. Arabian Gulf ports subject to the following limitations:
  - That the right of re-export or exchange shall cease on the reopening of the Suez Canal—subject to outstanding commitments of the Romanian specialised organisation during a period not exceeding one year following the reopening of the Suez Canal.
  - That the said crude may not be re-exported or exchanged to some specifically stated countries without prior written approval by INOC. Notice of such specific countries shall be given by INOC to the Romanian specialised organisation prior to signature of the general sales contract.
  - That in any case the crude oil may not be re-exported or exchanged at lower prices than the prices agreed with INOC.
4. All other terms and conditions for delivery of the crude oil shall be stipulated in the general sales contract.

*Selected Documents — 1971*

**ARTICLE 13**

Any specific contract for deliveries or services or works under Para 2 of Article 1 of this Agreement is subject to the prior approval of INOC with regard to repayment in crude oil.

**ARTICLE 14**

Both Parties shall also cooperate in research, scientific matters, manpower training and exchange of specialists.

**ARTICLE 15**

MMPG shall, within the laws and regulations of the Republic of Iraq, set up technical offices in Baghdad headed by a fully authorised representative who will be entrusted with the responsibility of expediting the implementation and execution of this Agreement. The said representative shall be fully authorised to deal with the Iraqi specialised organisations, on behalf of the Romanian specialised organisations, on matters relating to the performance of this Agreement and the specific and sales contracts made thereunder.

**ARTICLE 16**

1. A Joint Supervisory Committee formed of representatives of MMPG and 2 representatives of INOC shall be set up within two months after the coming into force of this Agreement. The Committee will establish the procedures for the proper implementation of this Agreement and supervise its satisfactory development, settling all the issues that may impair the execution of the Agreement and of the contracts concluded thereunder.
2. The Committee shall meet every (6) months, in Baghdad and Bucharest alternately or at the express request of either party.

**ARTICLE 17**

All taxes and duties which may be imposed by the authorities of the Republic of Iraq in connection with the contracts concluded under this Agreement or with personnel deputed under this Agreement shall be borne by the Iraqi specialised organisations.

All taxes and duties which may be imposed by the authorities of the Socialist Republic of Romania in connection with the contract concluded under this Agreement or with personnel deputed under this Agreement shall be borne by the Romanian specialised organisations.

This provision shall not apply to any taxes or duties relating to the establishment of the technical office mentioned in Article 15 of this Agreement or its personnel.

## *Iraq*

The provisions of this Article may be revised in the specific contract relating to any joint operations of refineries in accordance with Para 3 of Article 1 of this Agreement. The instalments and interest shall be repaid without deduction of any duties or taxes whether levied at present or in future.

## ARTICLE 18

1. Any difference or dispute which may arise between the Parties to this Agreement or the Parties to the specific or sales contracts shall be submitted to the Joint Committee established in Article 16 here-above for settlement by amicable agreement. The Joint Committee may settle such dispute or may recommend that the dispute be referred to an arbitration board to be established by the respective Parties. This procedure does not apply to differences or disputes relating to contracts concluded under this Agreement where specific provisions are made in those contracts relating to the manner of settlement of such differences or disputes.
2. No recommendation of the Joint Committee to refer a difference or dispute to an arbitration board and no arbitration proceeding shall affect the fulfilment of the respective obligations of the respective organisations to carry out the agreed projects, deliveries, services and works in accordance with the contracts in force between them.

## ARTICLE 19

The implementation of the contracts in Iraq in accordance with this Agreement shall be governed by Iraqi laws and regulations.

## ARTICLE 20

This Agreement shall come into force after both Parties have signed and ratified or approved it in accordance with the legal procedures in force in each country. The ratification or approval of the same by both Parties shall be completed within two months after the date of signature.

This Agreement shall be valid until all obligations and commitments resulting from it have been fulfilled by the respective Parties. Thereafter the validity of this Agreement may be extended by mutual consent.

## ARTICLE 21

MMPG and NAFTIYAH guarantee the performance by the respective Romanian and Iraqi specialised organisations of their obligations and commitments (including payments and repayments) under this Agreement and the specific and sales contracts signed in accordance with the Agreement.

*Selected Documents — 1971*

Made in Baghdad this day of October, 1971, in two original copies each being in English language.

H. E. Ioan Mineu  
On behalf of  
The Ministry of Mines, Petroleum  
and Geology of the Socialist  
Republic of Romania  
(MMPG)

H. E. Hussain Ghulam  
On behalf of  
The Ministry of Oil and  
Minerals of the Republic of  
Iraq  
(NAFTIYAH)

AGREEMENT ON SCIENTIFIC AND TECHNICAL COOPERATION  
BETWEEN  
THE GOVERNMENT OF THE REPUBLIC OF IRAQ AND THE  
HUNGARIAN PEOPLE'S REPUBLIC

The Government of the Republic of Iraq and the Government of the Hungarian People's Republic, hereinafter called the Contracting Parties, being desirous of promoting relations of friendship and amity existing between their respective countries, and of affirming their interest in fruitful scientific and technical cooperation in all fields of development, have agreed as follows:

ARTICLE 1

The Contracting Parties shall endeavour, through their competent institutions, to develop their relations in the following technical and scientific spheres:

1. Industry, particularly in the following fields:
  - (a) Prospecting, survey and exploitation of mineral resources.
  - (b) Construction of roads and railways.
  - (c) The execution of pumping stations and piping networks to transport crude oil and oil products.
  - (d) Construction of power stations and sub-stations, and also electrical industries.
  - (e) Economic utilization of waters, hydrological research, boring and water storage.
  - (f) Chemical industry including petrochemical industry and pharmaceutical industry.
  - (g) Manufacture of machine tools.

*Iraq*

- (h) Food industry with special regard to meat and fruit processing.
  - (i) Textile production, especially wool and cotton processing.
  - (j) Tobacco industry.
2. Agriculture, particularly in the following fields:
- (a) Mechanization and organization of agriculture.
  - (b) Soil improvement and irrigation.
  - (c) Setting up and organizing model farms with animal husbandry and training centers.
  - (d) Cultivation of grain crops, especially wheat, barley and seed improvement.
  - (e) Tobacco growing.
  - (f) Vine cultivation and processing.
3. Other items may be added to those enumerated in Paras 1 and 2 of this Article in such fields where the Contracting Parties can either be of benefit or derive benefit, subject to agreement between them.

**ARTICLE 2**

The Contracting Parties shall, subject to the laws and regulations in force in their respective countries, facilitate the exchange of visits of technical researchers, the provision of scholarships and the employment by each Contracting Party in its country of the experts of the other Party in the fields enumerated in Article 1 of this Agreement.

**ARTICLE 3**

The Contracting Parties shall facilitate the participation of interested experts of the other Party in scientific and technical conferences and symposia organized in their respective countries.

**ARTICLE 4**

The Contracting Parties shall promote the exchange of information, reports and materials indicating the results achieved in the various fields enumerated in Article 1 of this Agreement.

**ARTICLE 5**

Each Contracting Party shall, subject to the laws and regulations in force in its country, provide all necessary assistance and facilities to the nationals of the other Party sent to its country to perform their task in the implementation of the provisions of the Agreement.

## ARTICLE 6

1. A Joint Committee of equal members from both Contracting Parties shall be formed. The task of the committee shall be the coordination of scientific and technical cooperation between the two countries and the suggestion of such measures as are necessary for its achievement.
2. The Committee shall draw up the periodic programmes on scientific and technical cooperation for two or three years according to need.
3. The Committee shall meet once every two years alternately in Baghdad and Budapest, it may, however, meet if necessary at such time and place as are agreed upon by the Contracting Parties.
4. The periodic programmes drawn up by the Committee along with its recommendations shall be presented to the competent authorities of the Contracting Parties and shall come into force upon meeting with their approval.

## ARTICLE 7

A Protocol shall be concluded setting forth the means and conditions of implementation of this Agreement. The Protocol shall be annexed to the Agreement and shall be considered to be an integral part thereof.

## ARTICLE 8

This Agreement and the Protocol annexed to it, and any amendments thereto in the future, shall be ratified by the Contracting Parties in accordance with the constitutional procedures in force in their respective countries; they shall enter into force upon exchange of the instruments of ratification. The Agreement shall remain in force for a period of three years which shall be automatically renewable for similar periods unless one of the Contracting Parties gives written notice of its termination six months before its expiry.

IN WITNESS WHEREOF the undersigned, being duly authorized by their respective Governments, have signed this Agreement and have affixed thereto their seals.

For the Government of  
the Republic of Iraq

For the Government of  
the Hungarian People's Republic

## **CHAPTER V**

### **Libya**

**LAW No. 30 FOR THE YEAR 1971  
AMENDING CERTAIN PROVISIONS OF THE PETROLEUM  
LAW No. 25 FOR THE YEAR 1955**

In the name of the people,

The Revolutionary Command Council:

Having seen the Constitutional Declaration issued on 2nd Shaw'wal, 1389 H.Y., corresponding to the 11th December, 1969 and,

Having seen the Petroleum Law No. 25 for the year 1955, as amended and,

Acting on what has been presented by the Minister of Petroleum, and with the consent of the Council of Ministers,

**ISSUE THE FOLLOWING LAW:**

**ARTICLE 1**

The phrase (Fifty Percent), wherever mentioned in Paragraphs (a) and (b) of subparagraph 1 of each of Article 14 of the Petroleum Law No. 25 for the year 1955 as referred to above, and in Clause 8 of schedule II annexed thereto (The Concession Agreement) shall hereby be replaced by the phrase (Fifty-five Percent).

**ARTICLE 2**

The Minister of Petroleum shall execute this law and take the necessary procedures to amend the existing concession Agreements in accordance with its provisions. The Law

*Selected Documents — 1971*

shall come into force as from the date of its issue, and shall be published in the Official Gazette.

The Revolutionary Command Council  
Col Mu'ammar Qathafi  
Prime Minister  
Ezzedine El Mabruk  
Minister of Petroleum

Issued on 23rd Muharram, 1391 H.Y.  
Corresponding to 20th March, 1971.

**LAW No. 31 FOR 1971**

**AMENDING SOME OF THE PROVISIONS OF LAW No. 24 OF 1970  
REGARDING THE LIBYAN NATIONAL OIL CORPORATION**

The Revolutionary Command Council,  
After reviewing the Constitutional Proclamation issued on 2 Shaw'wal 1389, corresponding to 11 December 1969, and Law No. 24 of 1970 regarding the Libyan National Oil Corporation as amended by Law No. 136 of 1970, and in accordance with the proposal of the Minister of Petroleum and the approval of the Council of Ministers,  
Has issued the following Law:

**ARTICLE I**

The text of Article XIX of Law No. 24 of 1971 referred to above shall be replaced by the following text:

The Board of Directors of the Corporation shall be composed as follows:

1. The Chairman of the Board of Directors.
2. The Under Secretary of the Ministry of Petroleum who shall be nominated by the Minister and who shall replace the Chairman in the event of the latter's absence.
3. Three members representing the Ministries of Industry, Treasury and Economy, who shall be nominated by the Ministers concerned. Each of the three members must be of at least grade-one rank and highly qualified.

## *Libya*

Appointments to the Board of Directors, either of the Chairman or of the members, shall be effected by a decision of the Revolutionary Command Council for a period of four years, renewable. The appointment of the Chairman of the Board shall be full-time and the decision appointing him shall fix his grade and financial remuneration.

### ARTICLE II

The text of Article XXV of Law No. 24 referred to above shall be amended by deleting the last paragraph which reads as follows: "The Deputy Managing Director shall be responsible for assisting the Chairman of the Board of Directors, and shall replace him in exercising his functions as Managing Director in his absence."

### ARTICLE III

The term "Libyan National Oil Corporation" wherever it occurs in Law No. 24 of 1970 referred to above shall be replaced by the term "National Oil Corporation."

### ARTICLE IV

This Law shall come into effect as of the date of its promulgation and shall be published in the Official Gazette.

The Revolutionary Command Council

Signed: Col. Mu'ammar al-Qadhafi, Prime Minister

'Izz al-Din al-Mabruk, Minister of Petroleum

Promulgated on 1 Rabi'I 1391, corresponding to 26 April 1971.

### LAW No. 32 FOR THE YEAR 1971

### AMENDING CERTAIN PROVISIONS OF THE PETROLEUM

### LAW No. 25 FOR THE YEAR 1955

In the name of the people,

The Revolutionary Command Council:

Having seen the Constitutional Declaration issued on the 2nd Shaw'wal, 1389 H.Y., corresponding to the 11th December, 1969, and,

*Selected Documents — 1971*

Having seen the Petroleum Law No. 25 for the year 1955 as amended, and,  
Having seen the Law of the Supreme Court, as amended, and  
Acting on what has been presented by the Minister of Petroleum and with the consent  
of the Council of Ministers,

**ISSUE THE FOLLOWING LAW:**

**ARTICLE 1**

A New Article (22/Bis) shall be added to the aforementioned Petroleum Law No. 25  
for the year 1955 to read as follows:

1. Anyone committing a violation to the provisions of this Law and the Regulations issued thereunder, shall in every case separately be subject to a financial fine not exceeding five thousand Pounds. The amount of the fine may reach ten thousand pounds in the event the offence is being repeated.
2. In the event the Concession holder or the Licensee is responsible for the loss or waste of the crude oil or other hydrocarbon substances the value of the said crude oil or other substances shall be refunded in addition to the fine referred to in paragraph 1 of this article.
3. In the event the concession holder or the Licensee is responsible for damaging the Oil reservoirs as a result of failure to comply with the provisions of the Law or the Regulations issued thereunder or the sound practices prevailing in the Oil Industry, he shall refund the value of losses resulting therefrom, in addition to the fine referred to in paragraph 1 of this Article.
4. The Minister of Petroleum shall issue a final decision imposing the fines and compensations referred to in the previous paragraphs of this Article. However, the decisions of the Minister may be appealed before the Supreme Court in application of the provisions of Articles 21, 22 and 23 of the Supreme Court's Law referred to above.

**ARTICLE 2**

The Minister of Petroleum shall execute this law, which shall come into force as from the date of its issue, and shall be published in the Official Gazette.

Ezzidine El Mabrouk  
Minister of Petroleum

The Revolutionary Command Council  
Col. Mu'ammar Qathafi  
Prime Minister

Issued on 1st Rabi' El Awal, 1391,  
Corresponding to 26th April 1971.

*Libya*

TEXT OF LIBYAN LAW NATIONALIZING  
BRITISH PETROLEUM'S INTERESTS IN CONCESSION 65

In the name of the people,

The Revolutionary Command Council,

After review of Constitutional Proclamation Number 1 of 2 Shaw'wal 1389 (11 December 1969); and of Petroleum Law Number 25 of 1955, and the Laws amending it; and of Law Number 24 of 1970 relating to the National Oil Corporation and the Laws amending it; and of the Commercial Law and Law 65 of 1970 establishing certain regulations relating to merchants and commercial companies and their supervision; and of Oil Concession Agreement Number 65 and the agreements relating thereto; and in accordance with the proposal of the President of the Council of Ministers and with his approval, has issued the following Law:

ARTICLE 1

The operations of BP Exploration (Libya) Limited in Oil Concession Number 65 shall be nationalized. Ownership of all funds, rights, assets and shares relating to the abovementioned operations, shall revert to the state, including specifically the facilities and installations for exploration and drilling for, and production of, crude oil and natural gas, as well as for transportation, processing, refining, storage and export and other assets and rights relating to the aforementioned operations.

ARTICLE 2

A joint stock company of Libyan nationality, whose capital shall be wholly owned by the National Oil Corporation, shall be established under the name of the Arabian Gulf Exploration Company. All funds, rights and assets of BP Exploration (Libya) Limited which shall revert to the state in accordance with the provisions of the previous Article shall be transferred to this Company. The Arabian Gulf Exploration Company shall not be responsible for previous obligations relating to the nationalized operations except within the limits of the funds, rights and assets which shall revert to the state. The objects of this Company shall be the production of crude oil and natural gas, and refining, processing, storage and export operations and other operations relating to them, either within the area of the Concession referred to above or in any other area designated by the Board of Directors of the National Oil Corporation.

ARTICLE 3

The Arabian Gulf Exploration Company shall have the right to implement existing operating contracts and crude oil sales contracts relating to the nationalized operations,

*Selected Documents — 1971*

or to modify or annul them, as it deems appropriate in the public interest. Its decisions in this regard shall apply to the other partner in the aforementioned Concession Number 65.

**ARTICLE 4**

The Arabian Gulf Exploration Company shall pay to the State Treasury through the Ministry of Petroleum all taxes, rents, royalties and additional taxes imposed on BP Exploration (Libya) Limited which are due on the effective date of this agreement in accordance with the provisions of the Petroleum Law and the Concession Agreement referred to above and the agreements amending it.

**ARTICLE 5**

The state shall pay compensation to the concession holder for the funds, rights and assets reverting to it by virtue of Article 1. The determination of the amount of compensation shall be undertaken by a Committee to be formed by a decision of the Minister of Petroleum in the following manner:

- (a) One judge of the Courts of Appeal as President, to be nominated by the Minister of Justice.
- (b) One representative of the National Oil Corporation as a member, to be nominated by the Minister of Petroleum.
- (c) One representative of the Ministry of the Treasury as a member, to be nominated by the Minister of the Treasury.

The Committee may seek the help of whatever employees or others it deems necessary in the performance of its task.

**ARTICLE 6**

The sums required to settle outstanding taxes, duties and any other payments due to the State Treasury and any debts connected with the nationalized operations shall be deducted from the amount of compensation due to the concession holder in accordance with the preceding Article within the limits of the amount of compensation. Creditors of the aforementioned debts must present a statement of the sums owed to them with documentary proof attached to the Committee referred to in Article 5 within a period not exceeding thirty days from the issue of the decision forming it.

**ARTICLE 7**

The Committee referred to in Article 5 shall issue a decision on the granting of compensation and the determination of the debts to be deducted from it within a period not exceeding three months from the date of issue of the decision forming the Committee. The decision of the Committee shall be documented and final and shall

## *Libya*

admit of no appeal by any means, and it shall be communicated to the Minister of Petroleum who shall notify the concession holder of it within thirty days of its date of issue.

### ARTICLE 8

Within three months at the most from the effective date of this Law a decision of the Council of Ministers upon the proposal of the Minister of Petroleum shall be issued setting forth the Articles of Association of the Company, determining its term, capital, official headquarters, administrative organization, the conditions for drawing up its budget, and other matters and questions relating to them, subject to the provisions of this Law and Law No. 24 of 1970 and without being restricted by the provisions of the aforementioned Commercial Law and Law 65 of 1970.

### ARTICLE 9

The Board of Directors of the Company shall be composed of six members, including the Managing Director who shall be Chairman of the Board. The Chairman and members of the Board of Directors shall be appointed, and their salaries determined, by a decision of the Council of Ministers upon the proposal of the Minister of Petroleum.

### ARTICLE 10

The Board of Directors of the Company shall have the widest authority in administering the Company, discharging its affairs, and laying down the Company's general policy and financial and administrative rules to be followed, with the exception of those functions clearly reserved for the General Assembly in the Articles of the Company.

### ARTICLE 11

A quorum shall be constituted at meetings of the Board of Directors by the presence of a majority of its members, and decisions shall be issued by a majority of the votes present. In the event of a tie the side receiving the Chairman's vote shall prevail.

### ARTICLE 12

The Chairman of the Board of Directors of the Company shall be responsible for achieving its designated objectives and administering it and discharging its affairs in accordance with what is prescribed in the Articles of the Company.

### ARTICLE 13

The Board of Directors of the National Oil Corporation shall exercise, in relation to the Company, the powers of the general shareholders meeting as determined for this joint stock Company.

*Selected Documents — 1971*

ARTICLE 14

The Company shall have a special budget modeled on budgets for commercial projects, and the Company's net profits, after deduction of the reserve and other sums provided for in the Articles of Association of the Company, shall be transferred to the National Oil Corporation. Until such time as the Company's first budget is drawn up the government shall allocate funds for starting up the Company.

ARTICLE 15

The Company shall have one or more auditors for its accounts, whose duties, prerogatives and responsibilities shall be defined in accordance with the laws in force, and the Board of Directors of the National Oil Corporation shall issue a decision appointing them and fixing their fees. The auditor shall take the place of the Inspection Committee specified in the Commercial Law.

ARTICLE 16

The rules and procedures applicable in government service shall not apply to the Company's funds and properties, work regulations and employees.

ARTICLE 17

Employees and workers of Libyan nationality who are in the employ of the Company referred to in Article 1 shall be attached to the new Company, and may not leave or refuse to report to work unless discharged by a decision of the Company's Board of Directors. Foreign employees and workers may choose between remaining in their new posts or leaving their work. Libyan employees and workers, and foreigners who choose to remain in their work, will retain their present wages and salaries. The Minister of Petroleum may, upon the proposal of the Chairman of the Board of the National Oil Corporation, decide to assign Libyan workers and employees of other companies to work in the new Company as he sees fit, and the Company shall assume the payment of the salaries and allowances fixed for them in their original post for the duration of the assignment period.

ARTICLE 18

A committee or committees shall be appointed by a decision of the Board of Directors to be responsible for taking over the funds, assets and rights relating to the nationalized operations. By a decision of the Minister of Petroleum upon the proposal of the Chairman of the Board of Directors of the National Oil Corporation, this committee may be composed either of the members of the Board of Directors of the Arabian Gulf Exploration Company or employees of the government or organizations or public authorities or the Company referred to in Article 1.

*Libya*

**ARTICLE 19**

Any agreement, action or measure carried out contrary to the provisions of this Law shall be considered utterly null and void. Banks, organizations or individuals are prohibited from disbursing any sum or settling any claim or sum due to the aforementioned concession holder, except with the approval of the Board of Directors of the aforementioned Company.

**ARTICLE 20**

The violation of any provision of this Law shall be punishable by imprisonment for a term not exceeding two years and a fine not exceeding 500 dinars, or by either of these two penalties. Moreover, any person violating the provisions of the preceding Article shall be sentenced to pay three times the sum lost to the state through the violation.

**ARTICLE 21**

The Minister of Petroleum shall carry out this Law, which shall be effective from the date of its issue, and it shall be published in the Official Gazette.

The Revolutionary Command Council  
Col. Mu'ammar al-Qadhafi  
Prime Minister

Issued on 20 Shaw'wal  
1391 Hijrah, corresponding to 7 December 1971



## **CHAPTER VI**

### **Nigeria**

#### **OFF-SHORE OIL REVENUES DECREE 1971**

#### **DECREE No. 9**

**THE FEDERAL MILITARY GOVERNMENT** hereby decrees as follows:

1. 1. Section 140 (6) of the Constitution of the Federation (which provides that the continental shelf of a State shall be deemed to be part of that State) is hereby repealed.
2. Accordingly
  - (a) the ownership of and the title to the territorial waters and the continental shelf shall vest in the Federal Military Government; and
  - (b) all royalties, rents and other revenues derived from or relating to the exploration, prospecting or searching for or the winning or working of petroleum (as defined in the Petroleum Decree 1969) in the territorial waters and the continental shelf shall accrue to the Federal Military Government.
3. The references in this Decree to the "territorial waters" and the "continental shelf" are references to those expressions as defined in the Territorial Waters Decree 1967 and the Petroleum Decree 1969, respectively.
2. 1. This Decree may be cited as the Off-Shore Oil Revenues Decree 1971 and shall apply throughout the Federation.
2. This Decree shall come into force on 1st April 1971.

Made at Lagos this 31st day of March 1971.

Major-General Y. Gowon  
Head of the Federal Military Government  
Commander-in-Chief of the Armed Forces  
Federal Republic of Nigeria

*Selected Documents — 1971*

NIGERIAN NATIONAL OIL CORPORATION  
DECREE 1971

DECREE No. 18

THE FEDERAL MILITARY GOVERNMENT hereby decrees as follows:

1. 1. There shall be established as from 1st April 1971 a Nigerian National Oil Corporation (hereafter in this Decree referred to as "the Corporation") which shall be a body corporate with perpetual succession and a common seal.
2. The affairs of the Corporation shall be conducted by a Board of Directors of the Corporation (in this Decree referred to as "the Board") which shall consist of members mentioned in the Schedule to this Decree.
3. The provisions of the said Schedule relating to the powers and procedure of the Board, and other matters there mentioned, shall have effect as provided for in that Schedule.
2. Subject to the provisions of this Decree, the Corporation shall be charged with the general duty of
  - (a) exploring and prospecting for, working, winning or otherwise acquiring, possessing and disposing of petroleum;
  - (b) purchasing petroleum and its products and by-products, and treating, processing, mining and marketing petroleum, its products or by-products;
  - (c) constructing and laying of pipes for the carriage or conveyance of crude oil, natural gas, water or any other liquid;
  - (d) constructing, equipping and maintaining tank farms and other facilities; and
  - (e) performing the other functions conferred on the Corporation by this Decree.
3. 1. Subject to subsection (2) below, the Corporation shall have powers to do anything which in its opinion is calculated to facilitate the carrying out of its duties under this Decree including, without limiting the generality of the foregoing, the power
  - (a) to sue and be sued in its corporate name;
  - (b) to hold and manage the movable and immovable property of the Corporation;
  - (c) to purchase or otherwise acquire or take over all or any asset, business, property, privilege, contract, right, obligation and liability of any other company, firm or person in furtherance of the business engaged in by the Corporation;
  - (d) to enter into contracts or partnerships with any company, firm or person which in the opinion of the Corporation will facilitate the discharge of the said duties under this Decree;

*Nigeria*

- (e) to train managerial and technical staff for the purpose of the running of its operations; and
  - (f) to exercise such other powers as are necessary or expedient for giving full effect to the provisions of this Decree.
2. Except with the general or special approval of the Commissioner and as otherwise prescribed by this Decree, the Corporation shall not have power to borrow money or to dispose of any property.
  4. 1. There shall, on the recommendation of the Commissioner, be appointed by the Federal Executive Council a General Manager of the Corporation, who shall be the chief executive officer of the Corporation, and who shall be responsible for the day to day running of the affairs of the Corporation.  
2. There shall be appointed by the Board a Secretary to the Corporation who shall keep the records of the Corporation and conduct its correspondence, and perform such other duties as the Corporation may from time to time direct.
  5. 1. The Corporation shall keep proper accounts and proper records in relation thereto, and shall prepare in respect of each financial year a statement of accounts in such form as the Commissioner may direct, being a form which shall conform with the best commercial standards.  
2. The Corporation shall as soon as may be after the end of the financial year to which the accounts relate cause its accounts to be audited by auditors who shall with the consent of the Commissioner be appointed by the Board.  
3. The auditors shall, on the completion of the audit of the accounts of the Corporation for each financial year, prepare and submit to the Board reports setting out
    - (a) general observations and recommendations of the auditors on the financial affairs of the Corporation for the year and on any important matters which the auditors desire to bring to the notice of the Corporation and the Federal Executive Council; and
    - (b) detailed observations and recommendations of the auditors on all aspects of the operations of the Corporation for that year.  
4. The Corporation shall maintain a fund which shall consist of
    - (a) such moneys as may from time to time be provided by the Federal Executive Council for the purposes of this Decree by way of grants or loans as the case may be or both, and
    - (b) such moneys as may be received by the Corporation in the course of its operations or in relation to the exercise by the Corporation of any of its functions under this Decree,and from such fund there shall be defrayed all expenses incurred by the Corporation; and the Corporation shall submit to the Commissioner not later than three months before the end of each financial year estimates of its expenditure and income (which shall exclude payments to the Corporation out of moneys provided by the Federal Military Government) relating to the next following financial year.

6. 1. It shall be the duty of the Corporation to prepare and submit to the Commissioner not later than three months after the end of each financial year a report which shall be in such form as the Commissioner may direct and shall relate to the activities of the Corporation during the immediately preceding financial year.
2. The report shall include a copy of the audited accounts of the Corporation for that year and a copy of the auditors' report on the accounts and shall be presented to the Federal Executive Council by the Commissioner soon after the receipt thereof as may be convenient.
7. The Commissioner may with the approval of the Federal Executive Council issue to the Corporation such directions as he may think necessary as to the disposal of any surplus funds of the Corporation, and subject to any such directions, the Corporation may invest its funds, and maintain a general reserve.
8. 1. For the purposes of this Decree, the Corporation shall be subject to all rights, powers, obligations and duties to which
  - (a) a licensee or lessee by virtue of the Petroleum Decree 1969, and
  - (b) a licensee and the holder of a permit by virtue of the Oil Pipelines Act are subject.
2. Accordingly, the provisions of the enactments mentioned in subsection (1) of this section shall apply in relation to the Corporation as they apply in relation to any licensee or lessee, as the case may be, under those enactments, so however that in the application thereof
  - (a) paragraph 12 of the Schedule 1 to the Petroleum Decree 1969 (which provides for the relinquishment of one-half of the leased area after ten years of an oil mining lease), and
  - (b) paragraphs 3 and 6 of the said Schedule (which relate to the duration of an oil exploration licence and oil prospecting licence, respectively)shall be excluded.
3. Section 2 of the Statutory Corporations etc. (Special Provisions) Decree 1969 shall apply in relation to the Corporation as if the Corporation were included in the list of the corporations affected by that Decree in section 1 (2) thereof and to that extent, that Decree shall (subject to the provisions of this Decree) apply.
9. 1. Notwithstanding the foregoing provisions of this Decree, the powers of the Corporation in relation to the matters set out in subsection (2) below shall not be exercised except with the prior approval of the Federal Executive Council.
2. The matters to which subsection (1) of this section relates are as follows, namely
  - (a) award of any contract in relation to any project or activity of the Corporation, or the entering into any agreement or arrangement in connection with such project or activity, the value or consideration in connection with which is not less than fifty thousand pounds;
  - (b) any investment or any transaction connected therewith of a value of not less than fifty thousand pounds;
  - (c) the creation of any office of the Corporation in any part of the Federation;

*Nigeria*

- (d) the acquisition, sale, participation in partnership, or the taking over of any asset, business or property or privilege, contract, right, obligation and liability of any company, firm or person;
  - (e) any step towards the abandonment of rights in respect of any of the matters mentioned in paragraph (d) of this subsection or of any exploration or production rights.
10. Where in the exercise of any function under this Decree certain rights are affected, the provisions of this Decree shall not be construed so as to exclude
- (a) the payment of compensation in respect of any loss or damage that may have been suffered in consequence of the operation of the provisions of this Decree; and
  - (b) the determination of any right or interest in any property acquired or possessed by the Corporation, and the amount of compensation payable as may be determined, by any court of competent jurisdiction.
11. In this Decree, unless the context otherwise requires
- “the Commissioner” means the Federal Commissioner for Mines and Power; and
- “functions” include powers and duties.
12. 1. This Decree may be cited as the Nigerian National Oil Corporation Decree 1971 and shall apply throughout the Federation.
2. This Decree shall be deemed to have come into operation on 1st April 1971.

SCHEDULE

Section 1

SUPPLEMENTARY PROVISIONS

*Members*

1. The Board of Directors shall consist of
  - (a) the Permanent Secretary to the Federal Ministry of Mines and Power, who shall be the Chairman;
  - (b) the Permanent Secretary to the Federal Ministry of Economic Development and Reconstruction, or his deputy;
  - (c) the Permanent Secretary to the Federal Ministry of Industries, or his deputy;
  - (d) the Permanent Secretary to the Federal Ministry of Finance, or his deputy;
  - (e) the Director of Petroleum Resources, Federal Ministry of Mines and Power, or his deputy;
  - (f) the Chief Executive Officer of the Corporation; and
  - (g) three persons appointed by the Commissioner being persons who in the opinion of the Commissioner have, by reason of any necessary ability, experience, specialised knowledge of the oil industry or their business or professional attainments, a special contribution to make to the work of the Corporation.

*Selected Documents — 1971*

2. In paragraph 1 above "deputy," in relation to the Permanent Secretary to a Ministry means a public officer serving in the Ministry who is authorised in writing by the Permanent Secretary to act (either generally or on a particular occasion) as the Permanent Secretary's deputy for the purposes of the said paragraph.
3. 1. Subject to this Decree, a member of the Board who is not a public officer shall, unless he previously vacates his office
  - (a) hold office for three years on such terms as may be specified in his instrument of appointment, and
  - (b) be eligible for re-appointment.
2. Members of the Board shall be paid out of moneys at the disposal of the Board such remuneration and allowances as the Commissioner may with the approval of the Federal Executive Council determine.

*Proceedings*

4. Subject to this Decree and section 26 of the Interpretation Act 1964 (which provides for decisions of a statutory body to be taken by a majority of its members and for the chairman to have a second or casting vote), the Board may make standing orders regulating the proceedings of the Board or any committee thereof.
5. Every meeting of the Board shall be presided over by the Chairman or, if the Chairman is unable to attend any particular meeting, by another member appointed by the members to act as Chairman for that particular meeting.
6. The quorum at a meeting of the Board shall be the Chairman (or, in an appropriate case, the person appointed to act as Chairman under paragraph 5 above) and four other members.
7. Except as provided by paragraphs 1 (b) to (e) above, no member of the Board shall be entitled to appoint an alternate or deputy to represent him at a meeting.
8. Where standing orders made under paragraph 4 above provide for the Board to co-opt persons who are not members of the Board, such persons may advise the Board on any matter referred to it by the Board, but shall not be entitled to vote at a meeting of the Board.

*Pension schemes, etc.*

9. The officers and servants of the Corporation shall be appointed by the Board which shall determine their salaries and emoluments; and subject to any regulations made under paragraph 10 below, the Board may pay to or in respect of any officer or servant of the Board such pensions and gratuities as the Board may also determine.
10. With the approval of the Commissioner, the Board may make regulations providing for
  - (a) the grant of pensions, gratuities and other retiring allowances to its officers and servants and their dependants, and the grant of gratuities to the estates, or dependants of their deceased officers or servants, and

## *Nigeria*

- (b) the establishment and maintenance of medical benefit funds, superannuation funds and provident funds and the contributions payable thereto and the benefits receivable therefrom.

### *Miscellaneous*

11. The fixing of the seal of the Board shall be authorised by the signature of the Chief Executive Officer and the Secretary.
  12. Any contract or instrument which, if made or executed by any person not being a body corporate would not be required to be under seal, may be made or executed on behalf of the Board by any person generally or specially authorised to act for that purpose by the Board.
  13. Any document purporting to be a contract, instrument or other document duly signed or sealed on behalf of the Board shall be received in evidence and, unless the contrary is proved, be presumed without further proof to have been so signed or sealed.
  14. The validity of any proceedings of the Board shall not be affected
    - (a) by any vacancy in the membership of the Board, or
    - (b) by any defect in the appointment of a member of the Board, or
    - (c) by reason that a person not entitled to do so took part in the proceedings.
  15. Any member of the Board who has a personal interest in any contract or arrangement entered into proposed to be considered by the Board shall forthwith disclose his interest to the Board and shall not vote on any question relating to the contract or arrangement.

Made at Lagos this 14th day of April 1971.

**Major-General Y. Gowon**  
Head of the Federal Military Government  
Commander-in-Chief of the Armed Forces  
**Federal Republic of Nigeria**

## REVENUE RENEGOTIATION AGREEMENT

An AGREEMENT made at Lagos, Nigeria, on this day of May, 1971,  
BETWEEN the GOVERNMENT OF THE FEDERAL REPUBLIC OF NIGERIA  
(hereinafter referred to as "the Government") of the one part; and  
(hereinafter referred to as "the Company") of the other part.

*Selected Documents — 1971*

WHEREAS the Company is engaged in petroleum operations under oil prospecting Licences (or oil mining leases granted pursuant to such licences) and oil mining leases granted by the Government under enactments in force at the time and which continue in force under the Petroleum Decree 1969 and in accordance with the provisions of the Agreement dated , between the Government and the Company (which Agreement is hereinafter referred to as "the Covenant"); and WHEREAS negotiations have taken place between the Government and the Company in respect of the Company's petroleum operations in accordance with the provisions of the Covenant and of the Company's licences or leases, which continue in force as provided in the Petroleum Decree 1969.

*Now the parties hereto agree as follows:*

*Definitions*

1. In this Agreement, unless the context otherwise requires, the terms used shall have the meaning attached to them in accordance with Clause 1 of the Covenant; and "The Effective Date" means the . . . . .

*Existing Financial Agreements*

2. The existing financial arrangements between the Government and the Company shall continue to be valid in accordance with their terms as amended by this Agreement and the terms hereof shall constitute an integral part of these arrangements.

*Posted Prices*

3. 1. As from 1st September, 1970, the posted prices are as follows:

- (a)  $34.0^{\circ}$ - $34.9^{\circ}$  API crude—\$2.42 per barrel;
- (b)  $27.0^{\circ}$ - $27.9^{\circ}$  API crude—\$2.28 per barrel.

The prices under (a) and (b) of this Clause 3 (1) are subject to deductions of any Harbour or Terminal dues payable and subject to adjustments by an increase of 2 U.S. cents per each full degree of API gravity above  $34.0^{\circ}$  and  $27.0^{\circ}$  API gravity respectively and a decrease of 2 U.S. cents per each full degree of API gravity below  $34.9^{\circ}$  and  $27.9^{\circ}$  API gravity respectively.

2. As from the Effective Date the posted prices shall be increased to:

- (a)  $34.00^{\circ}$ - $34.09^{\circ}$  API crude—\$3.212 per barrel;
- (b)  $27.00^{\circ}$ - $27.09^{\circ}$  API crude—\$3.104 per barrel.

The posted prices to 31st December, 1975, shall further be in accordance with the provisions of the First Schedule hereto.

*Rate of Tax*

4. The Government shall amend the Act to provide that the assessable tax of the Company for any accounting period or portion of an accounting period commencing on or after the Effective Date shall be increased to an amount equal to fifty-five percent of its chargeable profits of that period or portion of that period.

*OPEC Allowances*

5. 1. (a) In accordance with the Second Schedule of the Covenant the Company agrees that the Allowances, as defined therein and as referred to in

*Nigeria*

Clause 3 (i) of the Covenant (percent and gravity allowances) shall be abolished with effect from 1st January 1970;

- (b) The Company agrees that for the period from 1st June, 1967—13th January, 1970, additional shippers' costs incurred in respect of its petroleum operations shall not be allowed as deductions in ascertaining the profits of the Company under the Act and that it shall withdraw all claims already submitted by it in that behalf.
- 2. As from the Effective Date the marketing allowance of 0.5 cent per barrel as agreed between the Government and the Company for the purposes of Section 17 A (3) of the Act and referred to in Clause 3 (ii) of the Covenant shall be abolished.

*Payments of Tax*

- 6. The timing of the Company's payments to the Government of Petroleum Profits Tax shall be converted to provide for the making of monthly payments as follows:
  - (a) Payments of Petroleum Profits Tax shall in each case be calculated to include both chargeable tax and additional chargeable tax within the meaning of the Act, and any reference in this Clause 6 to "tax" and "estimated tax" shall include both chargeable tax and additional chargeable tax due in respect of the period concerned.
  - (b) Tax for any accounting period of twelve months shall be payable in twelve instalments together with a final instalment as provided for in subparagraph 6 (b) (iv) below as follows:
    - (i) The first monthly payment shall be due and payable not later than the last day of the third month of the accounting period, that is to say 31st March, and shall be in an amount equal to one twelfth of the amount of tax estimated to be chargeable for such accounting period in accordance with section 27 (i) of the Act.
    - (ii) Each of the eleven monthly payments to be made subsequent to the payment under 6 (b) (i) above shall be due and payable not later than the last day of the month in question and shall be in an amount equal to the amount of tax estimated to be chargeable for such accounting period by reference to the latest return submitted by the Company in accordance with Section 27 (2) of the Act less so much thereof as has already been paid for such accounting period divided by the number of such of the twelve monthly payments remaining to be made in respect of such accounting period.
    - (iii) The return of estimated tax in accordance with Section 27 (i) of the Act shall be submitted to the Federal Board of Inland Revenue not later than two months after the commencement of the accounting period.
    - (iv) A final instalment of tax (thirteenth instalment) shall be due and payable at the time specified in Section 38 (6) of the Act and shall be for the amount of tax assessed for that accounting period less so much thereof as has already been paid under this Clause.

*Selected Documents — 1971*

7. For any accounting period or portion of an accounting period commencing on or after 1st January 1971, the aggregate amount of all capital allowances due to the Company in accordance with the Act except however that:
  - (a) in respect of qualifying building expenditure no initial allowance shall be due and the existing annual allowance shall remain at five (5) percent;
  - (b) in respect of qualifying plant expenditure initial allowance shall be due at ten (10) percent;
  - (c) in respect of qualifying expenditure on storage tanks and pipelines initial allowance shall be due at ten (10) percent and annual allowance at ten (10) percent;
  - (d) in respect of qualifying drilling expenditure (which expression shall have the same meaning as "qualifying petroleum expenditure" as defined in the Act except that the definition shall exclude the reference to the purchase of information), initial allowance shall be due at ten (10) percent and annual allowance at five (5) percent provided that the expenditure deducted in computing the adjusted profit of the Company in accordance with Section 10 (1) (e) of the Act shall include intangible drilling costs as defined in the Third Schedule hereto, directly incurred in connection with drilling an exploration appraisal or development well.

*Deductions from Assessable Tax*

8. All sums, which immediately before the Effective Date were deductible from assessable tax under Section 17 (2) (b) of the Act shall from the Effective Date be allowable expenses deductible under Section 10 of the Act with the exception of customs and excise duties or other like charges which shall continue to be deductible from assessable tax to the extent that they are levied in respect of plants, tools, machinery, equipment acquired by the Company and essential for use in the Company's petroleum operations.

*Licences and Leases*

9. (a) The rates and treatment of rents payable in respect of oil mining leases and oil prospecting licences granted to the Company shall remain unchanged as provided for in the leases and licences;
- (b) As from the Effective Date royalty in respect of crude oil shall be payable by the Company at uniform rates of 12½ % on-shore and of 10 % offshore;
- (c) In respect of crude oil produced by the Company and exported from Nigeria (whether by the Company or otherwise) royalty shall as from the Effective Date, be calculated at the field of production on the full applicable posted price;
- (d) Commencing with the quarter comprising the months of April, May and June, 1971, payments to the Government of royalty in respect of each quarter shall be converted to provide for the making of monthly payments as follows:

Payments of royalty for any quarter shall be made:

*Nigeria*

- (i) not later than the last day of the last month of each calendar quarter and shall be for an amount which is equal to one third ( $\frac{1}{3}$ ) of the estimated royalty due in respect of that quarter;
- (ii) not later than the last day of the first month following the calendar quarter at the amount payable under (i) above;
- (iii) not later than the last day of the second month following the calendar quarter at the balance of royalty actually due in respect of the quarter after deduction of the amounts paid under (i) and (ii) above.

*Natural Gas*

10. 1. As from the Effective date the Government shall have the right to take natural gas produced in association with crude oil by the Company and not already committed as part of a project approved by the Government, free of cost at the flare or at a cost that would ensure to the Company a reasonable return on any investment or part thereof which the Company has agreed to incur to deliver such gas to the Government at any other point and no royalty shall be payable by the Company in respect of gas so delivered.  
2. As from the Effective Date the Company shall obtain prior approval in writing from the Government for the price at which gas is sold by the Company which shall allow the Company at least a reasonable return on any investment or part thereof incurred to provide and deliver the gas so sold. Royalty shall continue to be payable by the Company in respect of such gas.
11. As from the Effective Date the aggregate level of dues levied as:  
(a) Harbour Dues under Ports Act; and  
(b) Oil Terminal Dues under the Oil Terminal Dues Decree 1969, in whatever manner calculated shall be 2 U.S. cents per barrel of oil loaded by the company into the vessel concerned. Such dues shall not be taken into account in computing the Company's royalty, tax and other fiscal liabilities to the Government.

*Duration*

12. For the period commencing from the Effective Date and ending on 31st December 1975, the provisions of the Company's financial arrangements with the Government as amended by this Agreement, shall determine the financial obligations of the Company to the Government, in respect of the Company's petroleum operations.

*Implementation*

13. The Government will take, or arrange for the taking of, such executive or legislative action required to give full effect to the provisions of this Agreement.  
IN WITNESS whereof, the Government and the Company, parties hereto, affix hereunder their respective hands and seals on the day and year first mentioned.

Signed Sealed and Delivered  
for and on behalf of  
the Government of the Federal Republic  
of Nigeria

*Selected Documents — 1971*

In the presence of:

Status

The Common Seal of the within named  
was hereunto affixed in the presence of

Managing Director

Secretary

**FIRST SCHEDULE**

**1. Posted Prices**

- (i) The Posted Prices from the Effective Date up to 30th June, 1971, shall be in the amounts of U.S. dollars 3.212 per barrel for 34.00°—34.09° API crude oil and U.S. dollars 3.104 per barrel for 27.00°—27.09° API crude oil and compose of the following:
- (a) 34.00°—34.09° API crude oil:
- |                                            |         |
|--------------------------------------------|---------|
| Base Posting as at 20th March 1971         | \$2.880 |
| Increase pursuant to paragraph 2 (b) below | \$0.122 |
|                                            | <hr/>   |
|                                            | \$3.002 |
| Suez Canal Allowance                       | \$0.120 |
| Temporary Freight Premium                  | \$0.090 |
| Posted Price as at 20th March 1971         | \$3.212 |
- (b) 27.00°—27.09° API crude oil:
- |                                            |         |
|--------------------------------------------|---------|
| Base Posting as at 20th March 1971         | \$2.775 |
| Increase pursuant to paragraph 2 (b) below | \$0.119 |
|                                            | <hr/>   |
|                                            | \$2.894 |
| Suez Canal Allowance                       | \$0.120 |
| Temporary Freight Premium                  | \$0.090 |
| Posted Price as at 20th March 1971         | \$3.104 |
- (ii) The Posted Prices will be subject to the following adjustments:
- (a) for each full 0.1° API gravity above 34.00° up to and including 40.00° the Posted Prices will be increased by 0.15 cents per barrel;
- (b) for each full 0.1° of API gravity above 40.00° the Posted Prices will be increased by 0.2 cents per barrel;
- (c) for each full 0.1° of API gravity below 34.09° the Posted Prices will be decreased by 0.15 cents per barrel down to and including 30° API;
- (d) for each full 0.1° of API gravity above 27.00° API or below 27.09° API gravity the Posted Price at 1 (i) (b) above shall increase or decrease by 0.15 cents per barrel for crude oils below 30° API provided that in case a basic for adjusting the Posted Prices for variations in gravity for such crude oils is agreed pursuant to paragraph 3 (c) (3) (Thirdly) of the Teheran

### *Nigeria*

Agreement dated 14th February, 1971, the company shall invite the Government to discuss as soon as practicable an appropriate scale of adjustment for gravity, if any, to be applicable to the posted price for such crude oils and any such adjustment shall take effect from the date of such agreement between the Government and the Company.

#### **2. Base Posting**

- (a) The Base Posting includes a low sulphur premium of 10 cents per barrel applicable to all export crude oil of 0.5 weight percent sulphur or less. This sulphur premium shall be increased by two cents on the 1st of January of each of the years 1972 through 1975.
- (b) The Base Posting will be increased as from the Effective Date by:
  - (i) 5 cents per barrel; and
  - (ii) an amount equivalent to two and a half percent (computed to the nearest one tenth \* of a cent) of the above Base Postings of \$2.880 and \$2.775 respectively.

The Base Posting will be further increased on the 1st of each of the years 1973 to 1975 by:

- (i) 5 cents per barrel; and
- (ii) an amount equivalent to two and a half percent (computed to the nearest one tenth \* of a cent) of the posted price prevailing on 31st of December of the preceding year less any Suez Allowance and Temporary Freight Premium under 3 and 4 below which may be included in such prevailing posted price.

#### **3. Suez Canal Allowance**

The Suez Canal Allowance of twelve cents will be reduced to four cents effective on the first day that the Suez Canal is open for passage of crude oil tankers on commercial voyages to a draft of 37 feet and will be eliminated entirely on the first day that the Suez Canal is open for passage of such crude oil tankers to a draft of 38 feet; provided that if the Suez Canal opens and the Suez Canal Authority at any time formally announces that the Canal is not to be deepened to a draft of 38 feet, any Suez Canal Allowances shall terminate on the date of such announcement.

#### **4. Temporary Freight Premium**

The Temporary Freight Premium shall be 9 cents included in the above posted prices of \$3.212 and \$3.104 respectively for the period from the Effective Date through 30th June, 1971. Subsequently, this premium will vary from calendar quarter to calendar quarter (with corresponding variations in the total posted price) according to the following:

- (a) In each subsequent calendar quarter ("the quarter of application") the Temporary Freight Premium will be calculated at 0.04 cents per barrel for each 0.1 percentage point of Worldscale by which the assessed LR 2 AFRA exceeds World-

---

\* For each decimal fraction of a cent of 0.05 cents or above, the amount is to be increased to the next higher 0.1 cent. For each decimal fraction of a cent below 0.05 cents, the amount is decreased by this fraction.

*Selected Documents — 1971*

scale 72. The result shall be rounded to the nearest one-tenth of a cent per barrel. The Temporary Freight Premium shall not be applicable unless the Assessed LR 2 AFRA is greater than Worldscale 72. Worldscale refers to the "Worldwide Tanker Nominal Freight Scale" issued jointly by the Association of Ship Brokers and Agents, Inc., and the International Tanker Nominal Freight Scale Association Limited.

- (b) Assessed LR 2 AFRA means the arithmetical average of the Average Freight Rate Assessments ("AFRA") expressed in percentage points of Worldscale, as published by the London Tanker Brokers Panel for Large Range 2 vessels on or about the first day of each of the three months preceding the quarter of application.

**SECOND SCHEDULE**

The conversion of the timing of payments of tax is to provide for the making of monthly payments in accordance with Clause 6 of this Agreement shall be given effect to as follows, that is:

**(a) Tax**

- (i) In respect of the Company's petroleum operations for the 1971 accounting period 50 % of the tax shall continue to be payable in instalments on the basis set out in Section 38 of the Act; the remaining 50 % of the tax shall be payable in six consecutive monthly instalments on the basis set out in Clause 6 (b) of this Agreement, the first of such instalments being due not later than 30th September, 1971.
- (ii) In respect of the Company's petroleum operations for the 1972 accounting period 25 % of the tax shall continue to be payable in instalments on the basis set out in Section 38 of the Act; the remaining 75 % of the tax shall be payable in monthly instalments as set out in Clause 6 (b) of the Agreement.
- (iii) In respect of the Company's petroleum operations for the 1973 accounting period and for each subsequent accounting period, the tax due for each such year shall be payable in monthly instalments as set out in Clause 6(b) of this Agreement.

**THIRD SCHEDULE**

For the purposes of Clause 7 (d) of this Agreement, "Intangible Drilling Costs" means all expenditures for labour, fuel, repairs, maintenance, hauling, and supplies and materials (not being supplies and materials for well cement, casing and other well fixtures) which are for or incidental to drilling, cleaning, deepening or completing wells, or the preparation thereof. Expenditures of the kind mentioned above for the purposes listed below are examples of intangible drillings costs:

- (a) Determination of well locations, geological studies and topographical and geo-physical surveys preparatory to drilling.

*Nigeria*

- (b) Drilling, shooting, testing and cleaning wells.
- (c) Cleaning, draining and levelling land, road-building and the laying of foundations.
- (d) Erection of rigs and tankage, assembly and installation of pipelines and other plant and equipment required in the preparation or drilling of wells producing petroleum.

**OIL PROSPECTING LICENCE No. 90**

**GRANTED TO OCCIDENTAL PETROLEUM OF NIGERIA**

1. This LICENCE is hereby granted for a term of five years commencing on the 1st day of October, 1971, to OCCIDENTAL PETROLEUM OF NIGERIA of WESLEY HOUSE, 21/22 MARINA, LAGOS, NIGERIA, to prospect for petroleum in, upon and under the lands described in the schedule hereto and delineated in red in the plan attached.
2. The licence is granted subject to the Petroleum Decree 1969 and the regulations thereunder now in force or which may come into force during the continuance of this licence (and also subject to the special terms and conditions in the Annex attached hereto).
3. In witness hereof the COMMISSIONER FOR MINES AND POWER, DR. RUSSELL ALIYU BARAU DIKKO, has hereunto set his hand and seal this 19th day of OCTOBER, 1971.

**SCHEDULE 1**

**DESCRIPTION OF LAND DESIGNATED AS  
OIL PROSPECTING LICENCE NO. 90**

The portion of land of the submarine area on the continental shelf of the Federal Republic of Nigeria containing approximately 275.20 square miles and designated as OPL 90 and shown edged in red on the attached map dated October, 1971 attached hereto drawn to the scale 1:100,000.

The vertices and boundaries of this area are described as follows:

The Datum Point, marked 90-01 on the plan, is defined as being the intersection of parallel  $03^{\circ} 50' 00''$  North and the meridian  $06^{\circ} 45' 00''$  East.

*Selected Documents — 1971*

*Vertex No. 90-02* is defined as the intersection of parallel  $03^{\circ} 54' 00''$  North and the meridian  $06^{\circ} 45' 00''$  East.

*Vertex No. 90-03* is defined as the intersection of parallel  $03^{\circ} 54' 00''$  North and the meridian  $06^{\circ} 46' 00''$  East.

*Vertex No. 90-04* is defined as the intersection of parallel  $03^{\circ} 55' 00''$  North and the meridian  $06^{\circ} 46' 00''$  East.

*Vertex No. 90-05* is defined as the intersection of parallel  $03^{\circ} 55' 00''$  North and the meridian  $06^{\circ} 50' 00''$  East.

*Vertex No. 90-06* is defined as the intersection of parallel  $04^{\circ} 02' 00''$  North and the meridian  $06^{\circ} 50' 00''$  East.

*Vertex No. 90-07* is defined as the intersection of parallel  $04^{\circ} 02' 00''$  North and the meridian  $07^{\circ} 01' 00''$  East.

*Vertex No. 90-08* is defined as the intersection of parallel  $04^{\circ} 04' 00''$  North and the meridian  $07^{\circ} 01' 00''$  East.

*Vertex No. 90-09* is defined as the intersection of parallel  $04^{\circ} 04' 00''$  North and the meridian  $07^{\circ} 04' 00''$  East.

*Vertex No. 90-10* is defined as the intersection of parallel  $04^{\circ} 01' 00''$  North and the meridian  $07^{\circ} 04' 00''$  East.

*Vertex No. 90-11* is defined as the intersection of parallel  $04^{\circ} 01' 00''$  North and the meridian  $07^{\circ} 05' 00''$  East.

*Vertex No. 90-12* is defined as the intersection of parallel  $03^{\circ} 50' 00''$  North and the meridian  $07^{\circ} 05' 00''$  East.

From the Datum Point, Vertex No. 90-01, the boundary runs at grid azimuth  $00^{\circ} 07'$  (mid belt) to Vertex No. 90-02 at a distance of approximately 24,194.2 feet from Vertex No. 90-01;

thence at grid azimuth  $90^{\circ} 07'$  (mid belt) to Vertex No. 90-03 at a distance of approximately 6,097.1 feet from Vertex No. 90-02;

thence at grid azimuth  $00^{\circ} 07'$  (mid belt) to Vertex No. 90-04 at a distance of approximately 6,058.2 feet from Vertex No. 90-03;

thence at grid azimuth  $90^{\circ} 07'$  (mid belt) to Vertex No. 90-05 at a distance of approximately 24,147.0 feet from Vertex No. 90-04;

thence at grid azimuth  $00^{\circ} 07'$  (mid belt) to Vertex No. 90-06 at a distance of approximately 42,329.8 feet from Vertex No. 90-05;

thence at grid azimuth  $90^{\circ} 02'$  (mid belt) to Vertex No. 90-07 at a distance of approximately 66,869.6 feet from Vertex No. 90-06;

thence at grid azimuth  $00^{\circ} 06'$  (mid belt) to Vertex No. 90-08 at a distance of approximately 12,087.4 feet from Vertex No. 90-07;

thence at grid azimuth  $90^{\circ} 06'$  (mid belt) to Vertex No. 90-09 at a distance of approximately 18,374.3 feet from Vertex No. 90-08;

thence at grid azimuth  $180^{\circ} 06'$  (mid belt) to Vertex No. 90-10 at a distance of approximately 18,210.2 feet from Vertex No. 90-09;

thence at grid azimuth  $90^{\circ} 06'$  (mid belt) to Vertex No. 90-11 at a distance of approximately 6,045.7 feet from Vertex No. 90-10;

*Nigeria*

thence at grid azimuth 180° 06' (mid belt) to Vertex No. 90-12 at a distance of approximately 66,229.4 feet from Vertex No. 90-11;

thence at grid azimuth 270° 06' (mid belt) to Vertex No. 90-01, the starting point, at a distance of approximately 121,489.4 feet from Vertex No. 90-12.

The Co-ordinates of the vertices are Grid Co-ordinates (mid belt) based on the projection system as used in Nigeria.

Vertex	Northing (Feet)	Easting (Feet)
90-01	— 59,794.27	1,002,760.95
90-02	— 35,604.86	1,002,810.79
90-03	— 35,617.42	1,008,885.25
90-04	— 29,570.11	1,008,897.73
90-05	— 29,619.37	1,033,194.58
90-06	12,710.38	1,033,279.96
90-07	12,581.19	1,100,082.77
90-08	24,674.36	1,100,104.89
90-09	24,641.47	1,118,322.10
90-10	6,502.12	1,118,290.05
90-11	6,491.54	1,124,362.80
90-12	— 60,018.78	1,124,250.21

The azimuths used in this description are Grid azimuths (mid belt) based on the projection system used in Nigeria, and areas are calculated from Co-ordinates based on the same system.

Note: Also attached hereto is the plan referred to in the Oil Prospecting Licence to which this Schedule is attached.

SCHEDULE 2

ANNEX 1

(Attached to and made a part of Oil Prospecting  
Licences covering Blocks 85, 87, 88 and 90)

In addition to the terms and provisions of the Oil Prospecting Licences ("Licences") dated granted by the FEDERAL GOVERNMENT OF NIGERIA ("FEDERAL GOVERNMENT") to OCCIDENTAL PETROLEUM OF NIGERIA ("OCCIDENTAL") covering Blocks 85, 87, 88 and 90 to each of which this ANNEX 1 is attached, the following additional rights, duties, obligations and benefits are hereby conferred and are made an integral part of such Licences and of such Leases which shall be derived therefrom:

**A. PAYMENT OF PREMIUM**

Within thirty (30) days after notification of grant of the said Licences, Occidental shall pay, and be solely responsible for such payment, to the GOVERNMENT OF THE FEDERAL REPUBLIC OF NIGERIA a total sum of TWO MILLION NIGERIAN POUNDS (£2,000,000) for the said blocks, comprising of FIVE HUNDRED THOUSAND POUNDS (£500,000) for each of the said blocks.

**B. TERM OF LICENCES**

The term of said Licences shall be five (5) years.

**C. JOINT VENTURE**

1. The FEDERAL GOVERNMENT, either directly or through a designated agency, shall participate in a Joint Venture as an undivided working interest owner with OCCIDENTAL in the rights, duties, obligations and benefits conferred by the said Licences and Oil Mining Leases ("Leases") which shall be derived from the Licences in the proportion of fifty-one percent (51 %) for the FEDERAL GOVERNMENT and forty-nine percent (49 %) for OCCIDENTAL. The participation of the FEDERAL GOVERNMENT, either directly or through its designated agency, which participation is hereinafter referred to as "FEDERAL AGENCY", shall apply to all areas under Licence or Lease to OCCIDENTAL covering the said Blocks.
2. The participation of the FEDERAL AGENCY shall be effective as of the date of the said Licences. From and after such date, all investments, costs and expenses of conducting operations on all Licences and/or Leases shall be borne currently by the FEDERAL AGENCY and OCCIDENTAL in proportion to their respective percentage interest and the FEDERAL AGENCY shall pay to OCCIDENTAL from time to time and as required by OCCIDENTAL its proportionate share of the aggregate of funds required to finance the investments and costs of the Joint Venture: provided, however, until the date of discovery of petroleum in commercial quantities as defined in paragraph 9 of Schedule 1 of the Petroleum Decree 1969, OCCIDENTAL shall advance all funds necessary for the conduct of operations on the Licences and/or Leases; and further provided that if there is no discovery of petroleum in commercial quantities, OCCIDENTAL shall bear and be solely responsible for all investments, costs and expenses made or incurred in conducting operations on the Licences and/or Leases. Such funds so advanced by OCCIDENTAL on behalf of the FEDERAL AGENCY shall be an interest-free loan to the FEDERAL AGENCY and shall be repaid to OCCIDENTAL in accordance with the following:
  - (a) Within thirty (30) days after the date of notification by OCCIDENTAL of a discovery of petroleum in commercial quantities, the FEDERAL AGENCY shall select one of the following alternatives and inform OCCIDENTAL of its choice, in order to reimburse OCCIDENTAL fully for all investments, costs and expenses, including the cost of capital and administrative overhead, attributable to the FEDERAL AGENCY's parti-

*Nigeria*

cipation in the Joint Venture from the date of the Licences up to the date of declaration by OCCIDENTAL of a discovery of petroleum in commercial quantities:

- (i) OCCIDENTAL shall be entitled to the sum of six United States of America cents (\$.06) for each barrel of the FEDERAL AGENCY's share of petroleum sold or otherwise disposed of until the total amount of such sums equals but does not exceed the foregoing investments, costs and expenses. If OCCIDENTAL markets and sells the FEDERAL AGENCY's share of petroleum, it shall deduct and be entitled to withhold from the proceeds of such sales paid to the FEDERAL AGENCY such per-barrel sum, or in the event the FEDERAL AGENCY takes in kind and separately disposes of its share of petroleum, it shall pay to OCCIDENTAL such per-barrel sum for each barrel taken and disposed of, until the total amount of such sums equals but does not exceed the foregoing investments, costs and expenses; or
  - (ii) Reimbursement of the said expenditures shall be made by the FEDERAL AGENCY to OCCIDENTAL in six (6) equal semi-annual instalments, the first payment to be made six (6) months after the date of commencement of regular exports of petroleum, and subsequent payments shall be made each six (6) months thereafter until the said reimbursement has been effected.
  - (b) Such reimbursements provided for herein shall be paid abroad to OCCIDENTAL in United States of America dollars or in freely convertible currencies acceptable to OCCIDENTAL, and OCCIDENTAL shall have the right to retain and use such currencies abroad. Further, OCCIDENTAL has the right to convert into freely convertible currencies of its choice any sums paid for such reimbursements which OCCIDENTAL may opt and require to be paid to OCCIDENTAL in Nigerian Currency, and freely to transfer and use abroad such currencies.
  - (c) The reimbursements provided for herein constitute repayment of the interest-free loans made by OCCIDENTAL to the FEDERAL AGENCY on which OCCIDENTAL realizes no profit or loss and do not constitute income or other financial benefit or gain to OCCIDENTAL and, therefore, shall not be subject to the income tax laws of Nigeria or to any other tax, levy, impost or exaction of any nature whatsoever.
  - (d) From and after the date of declaration by OCCIDENTAL of a discovery of petroleum in commercial quantities, the FEDERAL AGENCY shall pay currently its share of all investments, costs and expenses made or incurred in conducting operations on the Licences and/or Leases.
3. The FEDERAL AGENCY and OCCIDENTAL shall each bear its proportionate part of, and OCCIDENTAL, as Operator of the Joint Venture, shall pay for the joint account of the parties any and all rents, taxes (except royalties

and taxes based on income or profit), duties, or any rates, imposts, fees or other like charges due to the FEDERAL GOVERNMENT OF NIGERIA or any other Government or authority in Nigeria. Such payments made on behalf of the FEDERAL AGENCY shall be reimbursed by the FEDERAL AGENCY to OCCIDENTAL as and when required by OCCIDENTAL. The FEDERAL AGENCY and OCCIDENTAL shall each be responsible for the payment of royalties and taxes based on income or profit attributable to its own share of petroleum produced, saved and sold from the Joint Venture.

4. Subject to the provisions of Paragraph 8, hereof, the FEDERAL AGENCY and OCCIDENTAL each shall always have the right to take in kind, own and separately dispose of petroleum produced and saved from the Joint Venture in proportion to their respective participating interest therein; provided, however, that unless notified to the contrary in writing by the FEDERAL AGENCY, OCCIDENTAL itself or through an affiliated company, shall undertake to market and sell abroad all or part of the FEDERAL AGENCY's share of Crude Oil. The obligation of OCCIDENTAL to market and sell abroad the FEDERAL AGENCY's share of Crude Oil shall be subject to a reasonable period of notice by the FEDERAL AGENCY to OCCIDENTAL for the total or partial cessation of such marketing endeavours. In this connection, if the FEDERAL AGENCY desires that OCCIDENTAL no longer markets all or a portion of the FEDERAL AGENCY's share of Crude Oil, the FEDERAL AGENCY shall notify OCCIDENTAL not later than twelve (12) months before the beginning of each yearly period of its election to market on its own behalf all or a portion of its share of Crude Oil and shall designate such percentage of its share of Crude Oil as shall be marketed by it during the year. OCCIDENTAL shall be obligated to market all or a portion of the FEDERAL AGENCY's share for which OCCIDENTAL was not so notified of the FEDERAL AGENCY's intent to market for the applicable yearly period and shall have authority to make sales contracts binding on the FEDERAL AGENCY for periods customary in the industry, but in no event shall any such contract be for more than one (1) year unless approved in advance in writing by the FEDERAL AGENCY. The FEDERAL AGENCY may at any time revoke OCCIDENTAL's authority to market on its behalf. The FEDERAL AGENCY shall be obligated to fulfil all obligations incurred under the contracts made by OCCIDENTAL for and on behalf of the FEDERAL AGENCY.
5. For crude oil which OCCIDENTAL or its affiliates markets and sells abroad for and on behalf of the FEDERAL AGENCY, OCCIDENTAL or its affiliates shall be entitled to receive the proceeds thereof and to deduct and retain a sum which, after payment of taxes or any other exactions in Nigeria, will be equal to two percent (2 %) of the export proceeds from the sale of the FEDERAL AGENCY's share of crude oil produced and saved from the Joint Venture for the first two hundred thousand (200,000) barrels per day of such crude oil; and which sum shall equal three percent (3 %) of the export proceeds of any

### *Nigeria*

additional volumes of such crude oil in excess of two hundred thousand (200,000) barrels per day. The amount of deductions provided for herein to be retained by OCCIDENTAL or its affiliates for marketing and selling crude oil on behalf of the FEDERAL AGENCY shall in any year include but not exceed the aggregate of: reimbursement to OCCIDENTAL or its affiliates for brokerage services and selling expenses, the cost to OCCIDENTAL or its affiliates of capital associated with such marketing activities, and after-tax benefit which OCCIDENTAL or its affiliates would have realized by selling its own crude oil rather than selling crude oil on behalf of the FEDERAL AGENCY. Such deductions may be reviewed at the request of either Party, but not before the end of one (1) year after the regular export of crude oil commences and, thereafter, not more often than once each year. Any adjustments of such deductions which may be agreed to by the Parties shall not be made retroactive.

6. For its share of petroleum to which it has entitlement and which it markets and sells, OCCIDENTAL or its affiliates may retain and use abroad in foreign currency the proceeds of export sales and the proceeds of sales in Nigeria. For crude oil which OCCIDENTAL or its affiliates markets and sells abroad for and on behalf of the FEDERAL AGENCY, OCCIDENTAL or its affiliates shall pay to such bank account as the FEDERAL AGENCY may designate the proceeds of such Crude Oil sales less any amounts which OCCIDENTAL or its affiliates from time to time is entitled to deduct and to retain and use abroad in accordance with the terms and conditions herein. The computation of foreign exchange proceeds from disposal of OCCIDENTAL's own share of crude oil will be done by the application of the full posted price of the oil. With regard to crude oil sales by OCCIDENTAL or its affiliates, for and on behalf of the FEDERAL AGENCY, OCCIDENTAL shall make available to the FEDERAL AGENCY for its confidential information all particulars of the quantities, descriptions and prices of such crude oil sales including copies of contracts covering such sales and the FEDERAL AGENCY may be represented by an observer at the negotiations and signature of such contracts. With respect to crude oil sales by OCCIDENTAL or its affiliates to a purchaser other than an affiliate company, the proceeds of sales shall be the net realised price f.o.b. Nigerian port paid by such non-affiliated purchaser for such crude oil. With respect to crude oil sold, delivered or otherwise disposed of by OCCIDENTAL or its affiliate to an affiliated company, the proceeds of such sales shall be computed by multiplying the units so sold by the weighted average per unit net realised price f.o.b. Nigerian port paid by a non-affiliated purchaser to OCCIDENTAL or its affiliate during the preceding three (3) calendar months taking into account differences in kind, grade, gravity and quality of crude oil sold. In the event there are no sales by OCCIDENTAL to other than affiliated companies during such three (3) months, OCCIDENTAL shall be deemed to receive from sales of such crude oil to an affiliated company an amount per unit equal to the weighted average per unit net realised price f.o.b. Nigerian port

*Selected Documents — 1971*

actually paid by non-affiliated third parties for Nigerian crude oil during the preceding three (3) calendar months, taking into account differences in kind, grade, gravity and quality of crude oil sold. Detailed procedures for the determination of the weighted average price from sales to non-affiliated purchasers by other producers of crude oil in Nigeria shall be agreed upon by the Parties, provision being made for calling upon the services of neutral qualified experts, firms of international auditors or enlisting in aid such other means as may appear appropriate. The provisions of the foregoing Article 6 shall be subject to the foreign exchange arrangements prevailing from time to time for oil exporting companies in Nigeria.

7. The FEDERAL AGENCY may, at its discretion, assign its employees to work with OCCIDENTAL in the conduct of its day-to-day operations and in the preparation of annual programmes of work, budgets of expenditure and other plans concerning the development and operation of the Joint Venture and shall participate fully with OCCIDENTAL in all technical, management and financial decisions concerning the Joint Venture in order to assure full and current knowledge of the FEDERAL AGENCY and the FEDERAL GOVERNMENT of day-to-day operations and of plans and programmes as well as to provide optimum training experience for such employees. In order to implement the foregoing principle, a Management Committee shall be established from the date of granting of said Licences comprising an equal number of representatives appointed by each of the Parties as members. One of the members of the Management Committee shall be designated as Chairman. OCCIDENTAL shall have the right to designate such Chairman from the date of granting of said Licences until the date of discovery of petroleum in commercial quantities and thereafter the FEDERAL AGENCY shall have the right to designate such Chairman. The Management Committee shall review information regarding the progress of operations, as well as technical and financial data relating to the Joint Venture, and shall review and agree upon programmes of work, budgets of expenditure and all other plans and programmes including the selection of contractors as provided in Article 8 (i) (b) to carry out such plans and programmes pertaining to the operation and development of the Joint Venture presented to it by the Operator. A majority vote of the members of the Management Committee shall constitute agreement and each member thereof shall have one vote. The Parties agree that OCCIDENTAL is and shall be designated as Operator of the Joint Venture. As Operator, OCCIDENTAL shall have sole responsibility for control and management of all operations of the Joint Venture. As Operator, OCCIDENTAL shall have sole responsibility for the preparation of programmes of work, budgets of expenditure and all other plans and programmes concerning the development and operation of the Joint Venture and for presentation of such matters to the Management Committee. In the event agreement is not reached by the Management Committee with respect to all or any part of any matters presented to it by the

### *Nigeria*

Operator concerning the development and operation of the Joint Venture within thirty (30) days of the date on which the Operator presented such matters to the Management Committee, the Operator shall have the right to implement such programmes of work, budgets of expenditure or any other plans and programmes it proposes, provided, however, that the Operator shall be solely responsible for providing all the financing which may be required in accordance with and as applicable under the provisions of Articles 8 (iv) and 8 (v) for that part of or all of such programmes of work, budgets of expenditure, or any other plans and programmes on which agreement was not reached by the Committee. The foregoing right of the Operator to implement, at its discretion plans and programmes concerning the development and operation of the Joint Venture shall include all matters relating to the exploration for and development and production of petroleum, treating, processing, transporting, storing, handling, and exporting or otherwise disposing of such petroleum including the selection of contractors in accordance with Article H 2 and subject to Article 8 (i) (b). The foregoing right of the Operator shall not include plans and programmes involving expenditures for investments not involved with the foregoing matters, employment and compensation programmes for senior staff and management personnel (but excluding personnel seconded to the Operator from affiliated companies of the Operator), recruitment, training and scholarship programmes for Nigerians and other plans for Nigerianization of staff, appointment of auditors, selection of an insurance company or companies to assure jointly owned assets, selection of a bank or banks for joint account transactions in Nigeria, public and employee relations programmes in Nigeria, any contributions for charitable or similar purposes, the selection of third party consultants, or such other plans and programmes concerning similar matters as the Parties may from time to time agree for which agreement by the Management Committee shall be required before such plans and programmes are implemented by the Operator.

8. OCCIDENTAL shall submit an Operating Agreement compatible with the terms of the Licences and Leases, and incorporating the relevant terms and conditions contained in this Annex 1. Mutual agreement with respect to the Operating Agreement shall be reached by the Parties as promptly as possible: provided, however, that if and until such agreement is reached the Operator shall have the right to proceed with the development and operation of the Joint Venture in accordance with the terms and conditions of this Annex 1; and further provided that such Operating Agreement shall not contain any terms or conditions inconsistent with the terms and conditions of this Annex 1. In the event of a conflict between the Operating Agreement and this Annex 1, the terms and conditions of Annex 1 shall prevail. The Operating Agreement shall contain terms and conditions usually found in such agreements used by the international petroleum industry, and, specifically, shall include provisions substantially in conformity with the following:

- (i) OCCIDENTAL shall be Operator of the Joint Venture in conformity with Article C 7, above. The powers and duties of the Operator shall include, but not be limited to, the following:
  - (a) The Operator shall prepare and present to the Parties for review, discussion and agreement an annual programme of work and budget of expenditures. After any programme of work has been prepared, presented, reviewed, discussed and agreed to, the Operator has the obligation to implement such programme.
  - (b) The Operator shall select the contractors and enter into such contracts as may be required in connection with operations; provided, however, that any contract involving payments in excess of two hundred and fifty thousand Nigerian pounds (£250,000) shall first be presented to the Management Committee by the Operator for agreement except that agreement is not required for sole risk operations.
  - (c) The Operator shall acquire and furnish for the account of all the Parties all materials and equipment required in performance of the Joint Venture from the most economical source, provided such source meets appropriate quality standards or other conditions available from other sources.
  - (d) The number of employees and their selection and termination, and the hours of labour, and the compensation for services performed shall be determined by the Operator; provided, however, that employment and compensation programmes for senior staff and management, other than personnel seconded to the Operator, shall be presented to the Management Committee by the Operator for agreement; provided further that the Operator shall minimize the employment of foreign personnel by ensuring so far as is reasonably practical that foreign personnel are engaged only to the extent that Nigerians with the requisite qualifications are not available.
  - (e) In accordance with the Petroleum Decree 1969 and the Petroleum (Drilling and Production) Regulations 1969, the Operator and the FEDERAL AGENCY shall prepare jointly, and the Operator shall implement, training and educational programmes, and programmes for on-the-job instruction and actual work experience for Nigerian employees of the Joint Venture to provide them the opportunity to acquire the requisite qualifications to fulfil the position requirements at all levels of employment in the Joint Venture including technical, professional, executive, and management positions as well as to prepare and implement technical, professional, executive and management development programmes designed to qualify employees with the requisite potential for promotion to more senior positions in the Joint Venture with the objective of exceeding the requirements for employment of Nigerians provided for in the Petroleum Decree 1969.

*Nigeria*

- (f) The Operator shall keep full, clear and accurate accounting and other records and shall furnish the Parties and technical information acquired in relation to the joint operations.
- (ii) The proportionate participating interest of each Party in the Joint Venture shall be set forth in the Agreement.
- (iii) The contract area and the rights covered thereby shall include all applicable Oil Prospecting Licences, Oil Mining Leases and other Licences, Leases, or permits with respect thereto.
- (iv) There shall be provision for drilling operations by either of the Parties. Under such provisions either Party to the Joint Venture may propose the drilling of wildcat and/or development wells and in the event of any Party not desiring to participate therein the Party wanting to do so shall have the right to have the drilling carried out by the Operator at such Party's sole cost, risk and expense, but work which is undertaken by the Operator for the joint account of the Parties shall have precedence over a sole-risk operation. In the event such wells are capable of producing petroleum, and all Parties do not agree to participate in the construction of facilities to produce such petroleum, the desiring Party shall have the right to require the Operator to construct and install such additional facilities as may be required to develop, produce, treat, process, transport, store, handle, export or otherwise dispose of such petroleum at such Party's sole cost, risk and expense. The Party drilling shall be entitled to recover as a premium an amount remaining after payment of all taxes, royalties, and operating expenses equivalent to one thousand percent (1,000 %) of the cost and expenses to drill, evaluate, complete and equip such well up to and including the christmas tree in the case of a wildcat well, and an amount equivalent to five hundred percent (500 %) of the cost and expenses to drill, evaluate complete and equip such well up to and including the christmas tree in the case of a development well, and two hundred percent (200 %) of the cost and expenses of any additional facilities as may be required to deliver the production from such well, such amounts to be recovered from the Proceeds from the sale of production resulting from such well or wells. Notwithstanding anything to the contrary in this Annex 1, until such amounts have been recovered by the participant in such drilling, the non-participating Party shall have no entitlement to any production of petroleum from such well or wells or ownership in any facilities related thereto.
- (v) Provision shall be made for cash calls by the Operator covering estimated future expenditures. Such cash calls shall be made at least sixty (60) days before the beginning of the calendar month in which the money is to be spent. The advance notices shall designate the currency in which such sums are to be paid and payment shall not be later than the first day of the month in which it is anticipated the expenditures will be incurred

and shall be deemed to be due on that date. If a Party should fail to make any payment when due for estimated investments, costs and expenses, the Operator may proceed on behalf of the Party not in default and the Party in default shall pay such unpaid amounts plus a service charge thereon at the rate of ten percent (10 %) per annum until paid. As security for the payment of all sums due to the Operator, the Operator is hereby given a first and prior lien on the interest of each Party in the Licensed Area and upon each Party's interest in Petroleum produced and the proceeds from the sale thereof, and upon each Party's interest in all materials and equipment installed in the Licensed Area. In the event any Party fails to pay within the time set for paying any amount owing by it to the Operator, the Operator may, at its election and without prejudice to any other existing remedies, take the defaulting Party's share of Petroleum or collect from the purchasers of such petroleum the payment accruing to the delinquent Party. The Operator shall keep full and accurate accounts of all sums advanced and shall furnish to Non-Operator monthly statements accurately reflecting such advances and statements covering the expenditures made during each calendar month within thirty (30) days after the end of each month, when necessary adjustments between advances and actual expenditures shall be made within thirty (30) days after receipt of such statements from the Operator.

- (vi) An appropriate off-take procedure shall be provided. Such provision shall provide that cost and expenses of conducting the Joint Venture shall be borne in proportion to each Party's percentage entitlement of petroleum without regard to quantities of petroleum actually taken.
- (vii) Each Party shall, insofar as possible, currently take and dispose of its entitlement to petroleum and no Party shall, without the consent of the other Party be allowed to keep in jointly-owned storage facilities more than its entitlement of the capacity of such facilities.
- (viii) The Operator, in carrying out the operations under the said Licences and/or Leases, shall have the right to use, free of charge, the petroleum produced thereunder to the extent that such use is appropriate and necessary to the operations.
- (ix) Such employees who shall be designated by the FEDERAL GOVERNMENT or the FEDERAL AGENCY in accordance with Article C 7, hereof, shall not be employees of OCCIDENTAL or the Operator, and salaries and emoluments paid to them shall not be the obligation of OCCIDENTAL or the Operator, and such salaries and emoluments shall not be chargeable to the operations of the Joint Venture.
- (x) There shall be a definitive Accounting Procedure attached to the Operating Agreement which shall include a provision for Operator overhead designed

### *Nigeria*

to reimburse but not profit the Operator for the cost of administration of operations to be conducted under the Operating Agreement.

#### **D. CRUDE OIL PURCHASE**

The FEDERAL GOVERNMENT shall have the right to purchase up to twelve and one-half percent ( $12\frac{1}{2}\%$ ) of the crude oil produced and saved from the areas covered by the Licences granted to OCCIDENTAL or Leases which shall be derived therefrom, or to purchase the total requirement for internal consumption of crude oil in Nigeria, whichever is higher, at well-head value less agreed discounts. The amount of crude oil that the FEDERAL GOVERNMENT shall have a right to purchase from the Joint Venture in any annual period shall be purchased from the FEDERAL AGENCY's entitlement to crude oil from the Joint Venture and in the event all of such entitlement does not equal or exceed the total amount of crude oil the FEDERAL GOVERNMENT has a right to purchase, the balance to meet such amount shall be purchased from OCCIDENTAL's entitlement to crude oil. The Parties to the Joint Venture shall not be required to supply crude oil in any annual period in quantities that are disproportionate to those required to be supplied by other producers of crude oil of similar quality and gravity in Nigeria. For crude oil which the FEDERAL GOVERNMENT purchases from OCCIDENTAL hereunder the FEDERAL GOVERNMENT shall pay OCCIDENTAL abroad in United States of America dollars or in a freely convertible currency acceptable to OCCIDENTAL. For the purposes hereof Well-head Value is defined as the posted price established in accordance with Section 60 (4) of the Petroleum Decree 1969 less costs for handling, treating, and storing and transporting from the well-head to a tanker at a Nigerian port.

#### **E. SUPPORT FOR EDUCATIONAL PROGRAMMES**

1. OCCIDENTAL shall make an annual contribution of FIFTEEN THOUSAND NIGERIAN POUNDS (£15,000) per block in support of educational programmes related to petroleum technology. The contribution shall be paid to such fund as the Commissioner for Mines and Power or the Director of Petroleum Resources may direct. The first such payment shall be made within thirty (30) days after the grant of all Licences subject to this Agreement and thereafter shall be made on or before the anniversary date of the initial payment. In the event OCCIDENTAL relinquishes all of its interest with respect to any particular block, the obligation to make such contribution for such block shall cease.
2. OCCIDENTAL shall sponsor a visit by the Head of the Department of Petroleum Technology Course or his representative at any Institution of Higher Learning in Nigeria designated by the Director of Petroleum Resources to the petroleum technology departments of universities in the United States of America having outstanding petroleum technology departments. Such visits will be arranged when convenient to the Head and to the departments of the aforesaid universities.
3. OCCIDENTAL shall sponsor a professorship at an Institution of Higher

*Selected Documents — 1971*

Learning in Nigeria designated by the Director of Petroleum Resources in reservoir engineering or in production engineering to be filled by a candidate from a United States of America university. OCCIDENTAL shall be responsible for the financial arrangements with such professor. The tenure and timing of such professorship shall be agreed by OCCIDENTAL and the Institution.

4. OCCIDENTAL shall sponsor as a "trainee fellow" a graduate of any Institution of Higher Learning in Nigeria designated by the Director of Petroleum Resources whom the Institution wishes to obtain broader experience and background preparatory to assuming a professorship at the Institution. Such trainee fellow shall undertake specific courses at a university in the United States of America. The commencement and duration of such course to be undertaken by the trainee fellow shall be agreed by OCCIDENTAL and the Institution.
5. As soon as its exploration and production activities commence, OCCIDENTAL shall offer summer employment to selected students taking courses in petroleum technology and related subjects.

**F. PRODUCTION PAYMENTS TO THE FEDERAL GOVERNMENT**

OCCIDENTAL shall pay to the FEDERAL GOVERNMENT additional bonus payments at various levels of production of crude oil from the Joint Venture in accordance with the following: —

1. SEVEN HUNDRED AND FIFTY THOUSAND NIGERIAN POUNDS (£750,000) after production from the Joint Venture reaches a rate of at least fifty thousand (50,000) barrels of crude oil per day for a period of sixty (60) producing days. The said payment shall be made within thirty (30) days after the end of the sixty (60) day period.
2. ONE MILLION NIGERIAN POUNDS (£1,000,000) after production from the Joint Venture reaches a rate of at least one hundred thousand (100,000) barrels of crude oil per day for a period of sixty (60) producing days. The said payment shall be made within thirty (30) days after the end of the sixty (60) day period.
3. THREE MILLION NIGERIAN POUNDS (£3,000,000) after production from the Joint Venture reaches a rate of two hundred thousand (200,000) barrels of crude oil per day for a period of sixty (60) producing days. The said payment shall be made within thirty (30) days after the end of the sixty (60) day period.

**G. WORK PROGRAMME**

**1. Seismic**

OCCIDENTAL shall undertake a seismic survey using modern digital equipment, which survey shall be completed within six (6) months after the date of grant of the said Oil Prospecting Licences.

*Nigeria*

**2. Drilling**

OCCIDENTAL shall comply with the drilling requirements of the Petroleum (Drilling and Production) Regulations 1969 with respect to each Block covered by the said Oil Prospecting Licences.

**H. OTHER PROVISIONS**

1. OCCIDENTAL shall give preference for the transportation of such crude oil as it may produce, save and export from Nigeria to tankers owned by the FEDERAL GOVERNMENT OF NIGERIA or its agencies or by Nigerian citizens provided that the rates and other terms and conditions of charter are no less favourable than the rates and terms and conditions which OCCIDENTAL may obtain in the international tanker market.
2. OCCIDENTAL shall give preference to Nigerian businessmen and business entities for the provision of services, supplies and materials required for its petroleum operations in Nigeria provided that the terms and quality are no less favourable than may be obtained by OCCIDENTAL from other sources.
3. No failure or omission by OCCIDENTAL to carry out or perform any of the terms and conditions of the said Licences and/or Leases shall be deemed a breach of the Licences and/or Leases if and to the extent that such failure or omission arises from force majeure. Force majeure is defined to include war, insurrection, riot, civil commotion, strike, storm, tidal wave, flood, lightning, explosion, fire, earthquake, interruption of facilities or transportation or communication, navigation accident, interference with the rights of OCCIDENTAL hereunder by any other party, or any order, regulation or direction of the Government of Nigeria, whether promulgated in the form of a law or otherwise, and any other event which cannot reasonably be prevented or controlled.
4. The provisions of this Annex 1 shall be subject to and shall be governed by the Laws and regulations of the FEDERAL REPUBLIC OF NIGERIA, including rulings, orders and advisories issued pursuant thereto, and which are applicable to all holders of Oil Prospecting Licences and Oil Mining Leases in Nigeria.

The additional rights, obligations and benefits conferred by this Annex 1 comprise a total obligation for all Licences granted to OCCIDENTAL covering Blocks 85, 87, 88 and 90 and for Leases which shall be derived therefrom and shall not and do not constitute separate obligations under each separate Licence and Leases, provided however, that except as may be otherwise provided in this Annex 1, from and after the date of grant to OCCIDENTAL of all the said Oil Prospecting Licences and the Oil Mining Leases which shall be derived therefrom, the additional rights, duties, obligations and benefits conferred hereunder shall remain in force for as long as OCCIDENTAL maintains any interest in one or more of the said Licences and Leases. Unless otherwise indicated by the context of this Annex 1, all terms, words and phrases shall be as defined in the Petroleum Decree 1969, the Petroleum (Drilling and Production) Regulations, 1969 and the Petroleum Profits Tax Act, 1959 as amended, and as generally understood in the international petroleum industry.

*Selected Documents — 1971*

WITNESS THE EXECUTION HEREOF, this                           day of                           1971.

FEDERAL REPUBLIC OF NIGERIA

By:

OCCIDENTAL PETROLEUM OF  
NIGERIA

By:

## CHAPTER VII

### Qatar

#### AGREEMENT FOR THE USE OF ASSOCIATED GAS

THIS AGREEMENT is made the tenth day of March 1971 corresponding to the thirteenth day of Moharram 1391 BETWEEN the Government of Qatar (hereinafter called "the Government") of the first part, Qatar Petroleum Company Limited (hereinafter called "the Company") of the second part and the Qatar National Cement Company (S.A.Q.) (hereinafter called "Q.N.C.C.") of the third part.

WHEREAS the Company at all times requires gas for its operations under the Convention

AND WHEREAS by a letter CRQ/CA/3/746 dated 19th July 1959 (hereinafter called "the 19th July letter") the Company agreed to supply to the Government to 40 MM.s.c.f.d. of gas for fuel or light for domestic or industrial purposes in Qatar; AND WHEREAS by an Agreement (hereinafter called "the Q.N.C.C. Agreement") made the 13th May 1968 between the parties hereto the Company agreed to supply to Q.N.C.C. out of the said 40 MM.s.c.f.d. a quantity of 5 MM.s.c.f.d. for use as fuel in the manufacture of cement;

AND WHEREAS the Government has requested that gas be supplied by the Company to the Government and its nominees at the rates and in the years specified in Schedule 2 hereof in substitution for that supplied under the 19th July letter and the Q.N.C.C. Agreement;

AND WHEREAS the Government and the Company have agreed that as from the date hereof gas shall be supplied to the Government or its nominees under the terms of this Agreement and that accordingly the 19th July letter and the Q.N.C.C. Agreement should be determined and that Q.N.C.C. should join in this Agreement solely for the purpose of determining the Q.N.C.C. Agreement.

NOW IT IS HEREBY AGREED as follows:

#### ARTICLE 1

In this Agreement the expressions which are defined in Schedule 1 hereof shall have the meanings therein set out.

## ARTICLE 2

It is hereby agreed and declared:

1. as from the date hereof all gas supplied to the Government and its nominees will be subject to the provisions of this Agreement and where applicable to the terms of the relevant letters referred to in Article 4;
2. in consideration of the foregoing the 19th July letter and the Q.N.C.C. Agreement are hereby determined to the intent that the rights and obligations (other than those rights and obligations relating to indemnity in respect of claims arising from a supply of gas under the 19th July letter and the Q.N.C.C. Agreement and to outstanding payments for gas supplied and facilities provided thereunder) of each and every party thereto respectively be extinguished and that no party shall have any claim against any other in respect thereof.

## ARTICLE 3

The streams necessary from time to time to meet the requirements of the Government specified in Schedule 2 hereof are hereby established as reserved streams. The Government may from time to time reallocate the quantities of gas available from such reserved streams for any of the purposes specified in paragraph (e) of Article 6.

## ARTICLE 4

The Government may at any time upon giving adequate notice in writing to the Company request the Company to establish either for the Government or for its nominees further reserved streams out of the surplus streams available at such time. Details of any such further reserved streams shall be recorded by an exchange of letters between the Government and the Company which shall thenceforward form part of and be read as one with this Agreement.

## ARTICLE 5

1. On or before the first day of February in each year the Company shall advise the Government in writing of the location, source, quality and pressure during the previous year of:
  - (a) the streams in existence in such previous year;
  - (b) the streams used by the Company in such previous year for its operations under the Convention for or in connection with the production transport conservation and export of crude oil and the manufacture and export of Exported NGLs;
  - (c) the reserved streams established for the Government and its nominees and the actual deliveries thereunder;
  - (d) the surplus streams available at the date of such advice.

*Qatar*

2. On or before the first day of October in each year the Company will advise the Government in writing of the Company's estimate of the location, source, quality and pressure during the next succeeding year of:
  - (a) the streams likely to exist or to come into existence during such year;
  - (b) the streams likely to be used by the Company during such year for its operations under the Convention as aforesaid in paragraph 1 (b) of this Article;
  - (c) the reserved streams established for the Government and its nominees during such year;
  - (d) the surplus streams likely to be available during such year.

**ARTICLE 6**

- (a) Subject to the agreement of the Government the Company will install such necessary equipment and facilities and will carry out such necessary modifications to its existing equipment and facilities as the Company considers may be required from time to time to collect, measure and deliver gas to the delivery point.
- (b) All equipment and facilities up to the delivery point or points will belong to the Company and the Company will be solely responsible for the operation and maintenance thereof.
- (c) The Company reserves the right to process all gas before delivery to extract natural gas liquids. The Company shall not be required to treat, pressurise or store gas and, provided that gas delivered to the Government meets such reasonable specification as may have been agreed with the Government in relation to any particular reserved stream, the Government will accept all gas in its actual state at the delivery point.
- (d) Where more than one delivery point has been specified for any reserved stream the proportion of the supply from that stream to be made available at any particular delivery point shall be decided from time to time solely by the Company, except that the Company may not specify a delivery point in the Umm Said area for reserved streams being made available in the Dukhan area without first obtaining the agreement of the Government.
- (e) Ownership and control of the gas delivered to the Government hereunder and all responsibility and liability in respect of it shall pass to and be assumed by the Government at the relevant delivery point for each stream. Such gas shall be used by the Government as it chooses in Qatar as fuel, feedstock or for any other purpose in Qatar. The Government shall indemnify the Company against any action, claims or demands howsoever arising in connection with gas delivered to the Government hereunder.

**ARTICLE 7**

- (a) The Government shall reimburse the Company in respect of each year the cost (which shall consist of the following) of the supply of gas hereunder to the Government and its nominees:

*Selected Documents — 1971*

- (i) all expenditure reasonably incurred by the Company in that year under paragraph (a) of Article 6 in connection with the supply of gas to the Government and its nominees;
  - (ii) such part of the cost of operations of the Company for the year concerned (referred to in paragraph (c) (ii) of Article 4 of the Amended 1952 Agreement) as is fairly and properly attributable to the collection, measurement and delivery of gas to delivery point for the Government and its nominees. However the cost of collection, measurement and delivery of gas to any natural gas liquid plant established by the Company in Qatar from which gas is delivered to the Government and its nominees hereunder shall not be attributed to the cost of collection, measurement and delivery of such gas to the Government and its nominees.
- (b) As soon as possible after the end of each year the Company will notify the Government of the cost of the supply of gas for that year and the Government shall reimburse such cost to the Company. In the event that payment to the Company of such cost is not made within a period of two months from the date of such notification payment by the Government of such cost shall be effected in sterling by way of set-off against any sums payable or to be advanced thereafter by the Company to the Government in pursuance of the Convention; provided that such cost and payment shall be deemed to be provisional until determination of the total cost of operations of the Company for the year concerned in the manner provided in the Amended 1952 Agreement whereupon the cost shall be adjusted in accordance with such determination and a sum credited or debited to the Government as the case may be.

**ARTICLE 8**

1. The quantity and quality of gas produced in association with crude oil is related to the quantity and quality of crude oil produced and to the conditions under which gas is separated from crude oil. The Company shall under no circumstances be under any obligation to produce crude oil solely to make gas available or to produce or separate gas in any manner consistent with good oil field practice.
2. The Company shall not be responsible for any reduction in or interruption to the supply of gas or for failure to carry out any of its obligations under this Agreement due to force majeure or due to fluctuations in the quantity or quality of the crude oil and reserved streams produced. The Company shall not be directly or indirectly liable for any claims or demands that may arise out of or in connection with such interruption to or reduction in the supply of gas and the Government shall at all times indemnify the Company in respect thereof.
3. As the pressure and quality of gas may vary for operations reasons and moreover pressure will decline in subsequent years, the Company shall give the Government such notice as may be practicable of any significant variation in quality or pressure

*Qatar*

which it foresees as a result of planned operational requirements. In particular the Company shall endeavour to give the Government twelve months' notice of any significant decline in pressure which it foresees in any stream reserved for the Government hereunder to enable the Government to make such arrangements as the Government may need.

4. Without prejudice to the provisions of paragraphs 1 and 2 of this Article, the Company, recognising the importance of the continuity of supply of gas for industrial projects in Qatar, shall

- (a) use its best endeavours to avoid planned temporary shut-downs for survey or maintenance purposes during period of peak consumption duly notified by the Government;
- (b) where the Company considers the continuity of supply hereunder of gas will be affected:
  - (i) give at least three months' notice to the Government of any planned temporary shut-down for survey or maintenance purposes;
  - (ii) give the maximum period of notice to the Government as may be practicable of any temporary shut-down due to emergency operational requirements;
  - (iii) give twelve months' notice to the Government of any planned long term shut-down of NGL facilities or of crude oil production or planned long term reduction in crude oil production.

In relation to any planned temporary or long terms shut-down the Company will discuss with the Government the establishment of alternative reserved streams for any industrial project in Qatar for which a reserved stream has been established.

5. In the event that gas should not be available for supply to the Government hereunder or should be available only in quantities less than those required by the Government from time to time, the Company accepts no responsibility for providing any alternative for such gas except insofar as may be specifically agreed in relation to any particular project or projects.

## ARTICLE 9

The Government shall have the right to make available to another party for use in accordance with the terms of this Agreement gas to which the Government may from time to time be entitled hereunder, and the Government shall procure that any such party to whom gas is delivered direct by the Company at the request of the Government shall be bound by the provisions of this Agreement and shall conform thereto. However, nothing in this Article shall absolve the Government or the Company from their respective obligations to each other under this Agreement, and the Government agrees that it will not assign to any other party any of its rights or obligations under this Agreement except to such extent as may be necessary for the establishment of a Government Agency that would be concerned inter alia with the Government's utilization of gas.

## ARTICLE 10

If at any time any doubt, difference or dispute shall arise between the Government and the Company concerning the interpretation or execution of this Agreement or anything contained herein or connected herewith or any of the rights or liabilities hereunder, the same shall, failing any agreement to settle it in any other way, be decided in accordance with the provisions of paragraphs 1 and 2 of Article 11 of the 1964 Supplemental Agreement which provisions so far as not inconsistent herewith shall be deemed to be incorporated herein.

## ARTICLE 11

This Agreement shall continue in force for so long as the Convention remains in force and shall be ratified by Decree.

IN WITNESS whereof the representatives of the parties have hereunto set their hands on the day and in the year mentioned in the preamble.

For and on behalf of the Government of Qatar	Sgd.	For and on behalf of the QATAR NATIONAL CEMENT COMPANY (SAQ)
Witness:	Sgd.	FOR THE PURPOSE SOLELY OF DETERMINING THE Q.N.C.C.
For and on behalf of the Qatar Petroleum Co. Ltd.	Sgd.	AGREEMENT AS HEREINBEFORE MENTIONED:
Witness	Sgd.	Witness
		Sgd.

## SCHEDULE 1

- (a) "the Convention" means and includes the Agreement dated 17th May 1935 made between Shaikh Abdulla bin Qasim Al Thani (then the Ruler of Qatar) of the one part and Charles Clark Mylles on behalf of Anglo-Persian Oil Company Limited of the other part, the respective rights and obligations of which two parties thereunder are now vested respectively in the Government and the Company, and all agreements (including those mentioned in sub-paragraphs (b), (c) and (d) of this Schedule) and exchanges of letters in force and affecting the said Agreement of 17th May 1935 at the date of signature hereof.
- (b) "1964 Supplemental Agreement" means the Agreement between the Company and the Government dated 31st December 1964.
- (c) "the 1970 Supplemental Agreement" means the Agreement between the Government and the Company dated 21st October 1970.
- (d) "the Amended 1952 Agreement" means the Agreement between the Ruler of Qatar and the Company (under its then name of Petroleum Development [Qatar] Limited) dated 1st September 1952 as amended by the 1964 Supplemental Agreement and the 1970 Supplemental Agreement.

***Qatar***

- (e) Any expression used in this Agreement to which a specific meaning has been assigned in any of the abovementioned Agreements shall have the same meaning unless the context otherwise requires.
- (f) "gas" means natural gas produced by the Company in Qatar in association with the production of crude oil in a manner consistent with good oil field practice, in the state and at the pressure at which such gas may exist from time to time.
- (g) "stream" means the quantity in millions of standard cubic feet per day (herein referred to as "MM.s.c.f.d.") of gas estimated from time to time by the Company to be available from a specific source in excess of the Company's requirements for its operations under the Convention for or in connection with the production transport conservation and export of crude oil in accordance with good oil field practice and for or in connection with the manufacture and export of Exported NGLs.
- (h) "reserved stream" in relation to a stream means a quantity (in MM.s.c.f.d.) of gas reserved out of that stream for the Government pursuant to the provisions of this Agreement.
- (i) "surplus stream" means in relation to a stream the quantity (in MM.s.c.f.d.) of gas estimated from time to time by the Company to be available to the Government and its nominees from that stream in excess of the relevant reserved streams.
- (j) "day" means a period of twenty-four (24) consecutive hours beginning at 0800 Qatar local time on each calendar day and ending at 0800 Qatar local time on the following day.
- (k) "year" and "month" shall respectively be construed in relation to the Gregorian calendar.
- (l) "standard cubic foot" means the volume of gas which occupies one cubic foot of space when such gas is at a temperature of 60° F. and at an absolute pressure of 14.696 pounds per square inch.
- (m) "British Thermal Unit" or its abbreviation "b.t.u." means the heat required to raise the temperature of one pound of water at its maximum density one degree Fahrenheit.
- (n) "force majeure" means any happening affecting the Company's operations in Qatar which is due to circumstances beyond its control such as but not limited to Act of God, war, threat of imminent war, strikes, riots, civil commotions, sabotage, storms, explosions, fires and earthquakes.
- (o) "delivery point" means in relation to any particular reserved stream such point as the Company may after consultation with the Government specify for the delivery of such reserved stream.
- (p) This Agreement means and includes this Agreement and any agreements as may from time to time be entered into between the parties pursuant to Article 4 of this Agreement.

*Selected Documents — 1971*

SCHEDULE 2

State of Qatar — Gas Requirements

1. The reserved stream will be as follows:
  - (a) For delivery as FIRST STAGE SEPARATOR GAS at the degassing stations in the Dukhan Field in proportions to be decided by the Company according to operational requirements or,
  - (b) in the event that a Natural Gas Liquid plant is installed, for the delivery in part or in whole as NGL PLANT RESIDUE GAS at the fence of the NGL stripping plant installation and/or at the NGL fractionation plant in quantities containing the same number of b.t.u.'s per day as reserved in paragraph (a) above.
2. The Government has estimated that its total requirements from the reserved stream referred to in 1. (a) above will for the period indicated be:

	1971	1972	1973	1974	1975	1976	1977
MM.s.c.f.d.	65	95	110	140	150	160	170

**QATAR—SHELL AGREEMENT**

for the Amortisation of Exploration Expenditure and Drilling Expenditure  
(Ratified by Decree No. 127/1970, issued in the Official Gazette of January 20, 1971)

THIS AGREEMENT is made the Twenty-sixth day of Shawal 1390, corresponding to the Twenty-fourth day of December 1970 BETWEEN THE GOVERNMENT OF QATAR (hereinafter called "the Government") of the one part and THE SHELL COMPANY OF QATAR LIMITED (hereinafter called "the Company" which expression includes its successors and assigns) of the other part.

**ARTICLE 1**

In this Agreement

- (a) "the Principal Agreement" means the Agreement between the Ruler of Qatar and "Shell" Overseas Exploration Company Limited dated 29th November, 1952;

*Qatar*

- (b) "the Supplemental Agreement" means the Agreement between the Government and the Company dated 31st December, 1964;
- (c) any expression used in this Agreement to which a specific meaning has been assigned in the Principal Agreement or the Supplemental Agreement shall have the same meaning unless the context otherwise requires or the expression is otherwise defined herein;
- (d) "the Qatar Income Tax Decrees" means the Qatar Income Tax Decree, 1954, as amended by the Qatar Income Tax Amendment Decree dated 23rd September, 1955, as further amended by the Qatar Income Tax Amendment Decree dated 31st December, 1964;
- (e) "the Effective Date" means the first day of January of the year in which this Agreement comes into force pursuant to the provisions of Article 5;
- (f) the expressions "Exploration Expenditure" and "Drilling Expenditure" shall have the meanings attributed to those expressions respectively in the First Schedule hereto.

**ARTICLE 2**

- A. As from the Effective Date, for the purpose of ascertaining the cost of exported oil pursuant to paragraph 3 of Article 9 of the Principal Agreement, Exploration Expenditure and Drilling Expenditure shall constitute capital expenditure.
- B. For the purpose of establishing the deductions to be allowed for amortisation referred to in paragraph (c) of Article 4 of the Qatar Income Tax Decree the reasonable amount in respect of Exploration Expenditure and Drilling Expenditure shall be whichever is the higher of 10 % of such capital expenditure or such percentage thereof as shall result from amortising the same in equal annual instalments over the unexpired residue of the period of years referred to in Article 2 of the Principal Agreement save and except that:
  - (i) in the event of Exploration Expenditure having been incurred in any area which is relinquished by the Company the unamortised balance of such Exploration Expenditure shall be written off to the cost of exported oil of the Company in the year in which such area is relinquished;
  - (ii) in respect of abandoned wells, or wells in any area relinquished by the Company as aforesaid, the unamortised balance of Drilling Expenditure shall be written off to the cost of exported oil of the Company in the year in which the well is abandoned or the area relinquished.
- C. In the period between the date of commencement of the installation of storage and oil loading facilities for the purpose of making regular exports of oil and the Effective Date the Company has treated as capital expenditure the cost of geological, geophysical and topographic survey parties and has amortised such costs at 5 % per annum. For the purpose of establishing the deductions to be allowed for amortisation referred to in paragraph (c) of Article 4 of the Qatar Income Tax

*Selected Documents — 1971*

Decrees the reasonable amount in respect of such expenditure shall as from the Effective Date be whichever is the higher of 5% of such capital expenditure or such percentage thereof as shall result from amortising the same in equal annual instalments over the unexpired residue of the period of years referred to in Article 2 of the Principal Agreement save and except that in the event of such expenditure having been incurred in any area which is relinquished by the Company the unamortised balance of this expenditure shall be written off to the cost of exported oil of the Company in the year in which such area is relinquished.

- D. This Agreement shall be deemed to be an agreement of the kind referred to in paragraphs (b) and (c) of Article 4 of the Qatar Income Tax Decrees as amended by the enactment of the provisions in the Second Schedule hereto.

**ARTICLE 3**

This Agreement shall be supplemental to the Principal Agreement and the Supplemental Agreement which shall, subject to the provisions of this Agreement, continue in full force and effect and references in the Supplemental Agreement to the Qatar Income Tax Decrees shall as from the Effective Date and in respect of any period commencing on or after the Effective Date be read and construed as references to the Qatar Income Tax Decrees (as defined herein) as amended by the enactment of the provisions in the Second Schedule hereto.

**ARTICLE 4**

If any doubt, difference or dispute shall arise between the Government and the Company or between the Government and any Trading Company concerning the interpretation or execution of any provision hereof or anything herein contained or in connection herewith the same shall, failing any agreement to settle it in any other way, be decided by arbitration in the manner provided by Article 13 of the Supplemental Agreement and the provisions of that Article so far as not inconsistent herewith shall be deemed to be incorporated herein and the Company may proceed under that Article on behalf of a Trading Company.

**ARTICLE 5**

- (a) This Agreement shall have the force of Law.
- (b) This Agreement shall come into force as soon as all of the following events have occurred, namely:
  1. This Agreement has been executed by the parties hereto.
  2. This Agreement has been ratified by a Decree of His Highness the Ruler of Qatar.
  3. The amendments to the Qatar Income Tax Decrees referred to in the Second Schedule hereto have been enacted as part of the Law of Qatar for the purpose of implementing the provision of this Agreement.

*Qatar*

In witness whereof the representatives of the parties to this Agreement have hereunto set their hands on the day and year mentioned in the preamble.

For and on behalf of  
The Government of Qatar

(Sgd.)

Khalifa bin Hamad

Witness (Sgd.)

M.S. Mis'hal

For and on behalf of  
The Shell Company of Qatar Limited

(Sgd.)

B. R. Suttil

Witness (Sgd.)

Ragg.

THE FIRST SCHEDULE

- A. Exploration Expenditure for the purposes of this Agreement shall mean all direct costs of geological, geophysical and topographic survey parties incurred by the Company after the Effective Date in the State of Qatar and shall exclude all indirect costs including inter alia mobilisation and demobilisation costs, service fees and Qatar office costs.
- B. Drilling Expenditure for the purposes of this Agreement shall mean all direct costs incurred by the Company after the Effective Date on specific wells including inter alia costs of (a) moving drilling rigs within a field or a prospect and preparing them for drilling, (b) drilling, (c) well-site supervision, and shall exclude all indirect costs, including inter alia mobilisation and demobilisation costs, service fees and Qatar office costs. Costs of remedial or repair work carried out on any well including but not limited to, deepening within the same horizon and acid treating of completed wells and drilling of relief wells are production costs and shall be excluded from Drilling Expenditure.

**THE SECOND SCHEDULE**

**QATAR INCOME TAX AMENDMENT DECREE**

The Qatar Income Tax Decree of 1954, as amended by the Qatar Income Tax Amendment Decree of 1955 and as further amended by the Qatar Income Tax Amendment Decree of 1964, shall as from the date of this Decree be amended in the manner set out in the Annexure hereto and income tax shall in respect of any financial year ending on or after the date hereof be paid in accordance with the provisions of the Decree as so amended.

**AMENDMENT TO QATAR INCOME TAX DECREE, 1954 AS AMENDED BY  
QATAR INCOME TAX DECREE, 1955 AND AS FURTHER AMENDED BY  
QATAR INCOME TAX AMENDMENT DECREE, 1964.**

In Article 4, paragraph (b) thereof insert after the expression "oil properties in Qatar" but before the semi-colon the following bracketed words:

"(other than any such expenditure which shall be deemed to be capital expenditure by the provisions of any agreement with the Ruler under which such chargeable person is carrying on business in Qatar)."

## **CHAPTER VIII**

### **Venezuela**

**DECREE No. 509 OF 6 JANUARY 1971,  
FIXING RULES GOVERNING ESTABLISHMENT  
OF MINIMUM EXPORT VALUES OF HYDROCARBONS  
AND THEIR DERIVATIVES**

Rafael Caldera,  
President of the Republic,  
in exercise of the attribution conferred by Ordinal 10 of Article 190 of the Constitution,  
and pursuant to the provisions of Article 41 of the Income Tax Law, in Council of  
Ministers,  
*Decrees*  
the following

#### **REGULATIONS FOR THE ESTABLISHMENT OF EXPORT VALUES**

##### **ARTICLE 1**

For the purpose of establishing the values of minerals, whether processed or not, and of hydrocarbons and their by-products destined for export, at the Venezuelan loading port, to which values Article 41 of the Income Tax Law refers to, the National Executive shall proceed in accordance with the norms established by this regulation.

##### **ARTICLE 2**

The National Executive, through the Ministries of Finance and of Mines and Hydrocarbons shall permanently obtain and process adequate information on the market realization prices of minerals, whether processed or not, and of hydrocarbons

*Selected Documents — 1971*

and their by-products, on their demand, on the possible short, medium and long term evolution of these prices, and on world energy requirements.

**ARTICLE 3**

The National Executive shall hear, for a period of not less than thirty (30) succeeding days, the expositions that may be made on the matter by entities and natural or juridical qualified persons. To this end, the Ministries of Finance and of Mines and Hydrocarbons shall publish in the Official Gazette of the Republic of Venezuela and in at least three (3) of the most widely circulated daily newspapers, a notice informing on the initiation of the administrative action prior to the decision of the establishment of the indicated values.

**ARTICLE 4**

Within thirty (30) succeeding days from the expiration of the term established to hear the expositions referred to in the preceding Article, the National Executive, by Joint Resolution of the Ministries of Finance and of Mines and Hydrocarbons, shall proceed to the establishment of the values of minerals, whether processed or not, and of hydrocarbons and their by-products, provided for in Article 41 of the Income Tax Law. Said Joint Resolution shall become effective ten (10) days after its publication in the Official Gazette, or on a subsequent date established therein and shall be in force for the period established therein.

**ARTICLE 5**

The Ministers of Finance and of Mines and Hydrocarbons shall be in charge of the execution of this Decree.

Given in Caracas, on the sixth day of the month of January, nineteen hundred and seventy-one, Year 161st of the Independence and 112th of the Federation.

R. Caldera  
(Seal)

Countersigned

Pedro R. Tinoco, hijo  
The Minister of Finance  
(Seal)

Countersigned

Hugo Pérez la Salvia  
The Minister of Mines and Hydrocarbons  
(Seal)

*Venezuela*

JOINT RESOLUTION Nos. 643 AND 408  
OF THE MINISTRIES OF FINANCE AND OF MINES  
AND HYDROCARBONS, ESTABLISHING MINIMUM EXPORT VALUES

Republic of Venezuela, Ministry of Finance — General Administration of the Income Tax No. 643 — Ministry of Mines and Hydrocarbons — Direction General No. 408 — Caracas, March 8, 1971.

*Resolve:*

In accordance with the provisions of Article 41 of the Income Tax Law, and of Article 4th of the Regulation on the Establishment of Export Values, the minimum values f.o.b. Venezuelan loading port are hereby determined for the following types of hydrocarbons and their by-products exported until December 31, 1971:

I. Export Values Applicable to Crude Oils

*Natural Crude Oils:*

<i>API Gravity</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel</i>
7.0	58.3945	2.1100
8.0	59.2248	2.1400
9.0	60.0550	2.1700
10.0	60.8853	2.2000
11.0	61.7155	2.2300
12.0	62.5458	2.2600
13.0	63.3760	2.2900
14.0	64.2063	2.3200
15.0	65.0365	2.3500
16.0	65.8668	2.3800
17.0	66.6970	2.4100
18.0	67.5273	2.4400
19.0	68.3575	2.4700
20.0	69.1878	2.5000
21.0	69.6029	2.5150
22.0	70.0181	2.5300
23.0	70.4332	2.5450
24.0	70.8483	2.5600
25.0	71.2634	2.5750
26.0	71.6786	2.5900
27.0	72.0937	2.6050
28.0	72.5088	2.6200
29.0	72.9239	2.6350
30.0	73.3391	2.6500
31.0	73.7542	2.6650

*Selected Documents — 1971*

<i>API Gravity</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel</i>
32.0	74.1693	2.6800
33.0	74.5844	2.6950
34.0	74.9996	2.7100
35.0	75.4147	2.7250
36.0	75.8298	2.7400
37.0	76.2450	2.7550
38.0	76.6601	2.7700
39.0	77.0752	2.7850
40.0	77.4903	2.8000
41.0	77.9055	2.8150
42.0	78.3206	2.8300
43.0	78.7357	2.8450
44.0	79.1508	2.8600
45.0	79.5660	2.8750
46.0	79.9811	2.8900
47.0	80.3962	2.9050
48.0	80.8114	2.9200
49.0	81.2265	2.9350
50.0	81.6416	2.9500
51.0	82.0567	2.9650
52.0	82.4719	2.9800
53.0	82.8870	2.9950

A premium for natural crude oils with gravities lower than 20.0° API is hereby established:

<i>Amount of Premium</i>	<i>API Gravity</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel</i>
	7.0	5.3966	0.1950
	8.0	4.9815	0.1800
	9.0	4.5664	0.1650
	10.0	4.1513	0.1500
	11.0	3.7361	0.1350
	12.0	3.3210	0.1200
	13.0	2.9059	0.1050
	14.0	2.4908	0.0900
	15.0	2.0756	0.0750
	16.0	1.6605	0.0600
	17.0	1.2454	0.0450
	18.0	0.8303	0.0300
	19.0	0.4151	0.0150

The indicated values, as well as those values adjusted in accordance with the premium established in the above paragraph, shall apply to shipments falling

### *Venezuela*

within any full degree of API gravity; any variation in terms of tenths of API degree shall be adjusted at the rate of Bs 0.0415 per cubic meter (U.S. \$0.0015 per barrel) for each 0.1° API (tenth of a degree API).

#### *Natural Condensate Crude Oils:*

Natural Condensate Crude Oils are those hydrocarbons which are liquid under atmospherical conditions and in gaseous state under the original conditions of the reservoir, and are not obtained by the processes of absorption, adsorption, compression, refrigeration or a combination of such processes, and having a gravity higher than 40.9° API at 15.56° C (60° F). These oils shall have an export value of Bs 63.6528 per cubic meter (U.S. \$2.3000 per barrel). The value of these natural condensate crude oils shall not be adjusted by gravity differences.

#### *Reconstituted Crude Oils:*

Reconstituted Crude Oils are those hydrocarbons resulting from blending natural crude oils with one or more products.

The export values applicable to reconstituted crude oils exported during 1971 shall be determined as follows:

1. The export value of each crude oil included in the reconstituted crude oil shall be determined in accordance with the values applicable to natural crude oils.
2. The gravity of the crude oil(s) shall be that which was determined before mixing the crude oil(s) with the product(s).
3. The export value of each product, included in the reconstituted crude oil shall be determined in accordance with the values applicable to refined products.
4. The export value for each shipment of reconstituted crude oil shall be determined as follows: the results of the multiplications of the volume of each component by their respective export value, determined in accordance with the provisions of Sections 1., 2. and 3. above, shall be added and then divided by the entire volume of reconstituted crude oil shipped.
5. At the end of the period considered hereunder the Ministries of Finance and of Mines and Hydrocarbons shall determine, in chronological order, the volume of products amounting up to sixty percent (60 %) of the entire quantity of reconstituted crude oils exported, and a ten percent (10 %) reduction shall be subtracted from the export value corresponding to those products, as determined in accordance with the provisions of Section 3. above. No reduction shall be made on the export value of the products in excess of such sixty percent (60 %).

#### *Adjustments:*

Whenever retroactive adjustments are made in the selling price of natural crude oils, natural condensates and reconstituted crude oil exports, on account of buyers' claims, duly verified and based on contamination or other circumstances which diminish crude oil quality, the respective export value shall be adjusted by the same amount as the price actually paid, that is, by the same amount of the adjustment granted in accordance with the claim finally acknowledged by the National Executive.

*Selected Documents — 1971*

**II. Export Values Applicable to Refined Products**

<i>Gas Plant Products:</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel</i>
Propane	61.4388	2.2200
Butane	62.5458	2.2600
Isobutane	88.6988	3.2050
Natural gasoline	67.8040	2.4500

The export values of butane and propane blends shall be determined on the basis of the volume of each component.

*Aviation Fuels:*

**1. Aviation Gasoline**

Grade 115/145	188.2462	6.8020
Grade 100/130	173.2739	6.2610
Grade 91/98	156.0047	5.6370
Grade 80/87	150.1099	5.4240

**2. Aviation Turbo Fuels**

Turbo Fuel Naphtha	67.8040	2.4500
Turbo Fuel Kerosene	110.0916	3.9780

*Motor Gasoline\*:*

101 Research Octane Number	120.6635	4.3600
100 Research Octane Number	116.8167	4.2210
99 Research Octane Number	112.9975	4.0830
98 Research Octane Number	109.1783	3.9450
97 Research Octane Number	106.9367	3.8640
96 Research Octane Number	104.7227	3.7840
95 Research Octane Number	102.4810	3.7030
94 Research Octane Number	99.6028	3.5990
93 Research Octane Number	96.7522	3.4960
92 Research Octane Number	94.5105	3.4150
91 Research Octane Number	92.2689	3.3340
90 Research Octane Number	90.0548	3.2540
89 Research Octane Number	88.1176	3.1840
88 Research Octane Number	86.2080	3.1150
87 Research Octane Number	84.2984	3.0460
86 Research Octane Number	82.6102	2.9850
85 Research Octane Number	80.9497	2.9250
84 Research Octane Number	79.2615	2.8640
83 Research Octane Number	77.6010	2.8040
82 Research Octane Number	76.3833	2.7600
81 Research Octane Number	75.1656	2.7160
80 Research Octane Number	73.9202	2.6710

\* Finished, unfinished and blending agents.

*Venezuela*

	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel</i>
79 Research Octane Number	72.7025	2.6270
78 Research Octane Number	71.4848	2.5830
77 Research Octane Number	70.2671	2.5390
76 Research Octane Number	69.0217	2.4940
75 Research Octane Number or less	67.8040	2.4500

*Naphthas:*

The export value of Naphthas shall be determined in accordance with their research octane number, applying the same values established for motor gasolines.

*Kerosene:*

Kerosene	110.0916	3.9780
Stove Oil	86.3187	3.1190

*Distillates: Diesel Oil/Gas Oil*

	<i>Viscosity</i> <i>SSU/122° F</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel</i>
Heavy Distillates 71—55			
having less than 43 diesel index	90.4976	3.2700	
43-47 diesel index	91.6600	3.3120	
48-52 diesel index	92.8224	3.3540	
53-57 diesel index	93.9847	3.3960	
Medium Distillates 54—40			
having less than 43 diesel index	97.4164	3.5200	
43-47 diesel index	98.5788	3.5620	
48-52 diesel index	99.7411	3.6040	
53-57 diesel index	100.9035	3.6460	
Light Distillates 39—30			
having less than 43 diesel index	101.5677	3.6700	
43-47 diesel index	102.7300	3.7120	
48-52 diesel index	103.8924	3.7540	
53-57 diesel index	105.0548	3.7960	

Whenever the sulphur content is lower than 0.3 %, a premium of Bs 1.3838 per cubic meter (U.S. \$/barrel 0.05) will be added to the export values shown.

*Residual Fuels with High Sulphur Content (2.0 % or more):*

	<i>Viscosity</i> <i>SSU/122° F</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel</i>
Heavy residual fuel	7,000—3,050	63.9295	2.3100
Medium residual fuel	3,000— 825	66.6970	2.4100
Light residual fuel			
(i) Special	820— 195	72.2321	2.6100
(ii) Fuel No. 4	190— 72	77.9885	2.8180

*Selected Documents -- 1971*

*Residual Fuels with Low Sulphur Content:*

These are fuels with viscosities ranging from 72 to 7,000 SSU at 122° F and with sulphur content lower than 2.0 % in weight.

<i>Per Cent Sulphur</i>	<i>Bs/m³</i>	<i>U.S. \$/barrel</i>
1.9	77.9885	2.8180
1.8	77.9885	2.8180
1.7	77.9885	2.8180
1.6	78.4590	2.8350
1.5	81.5032	2.9450
1.4	83.9940	3.0350
1.3	86.2080	3.1150
1.2	87.5087	3.1620
1.1	88.6988	3.2050
1.0	89.5290	3.2350
0.9	90.6360	3.2750
0.8	91.7430	3.3150
0.7	92.8500	3.3550
0.6	94.0677	3.3990
0.5	95.1747	3.4390
0.4	96.2817	3.4790
0.3	97.3887	3.5190

*Lubricating Oils:*

Solvent Neutral Oils Base	257.3786	9.3000
Brightstock Base	265.6812	9.6000
High Viscosity Index Base	261.5299	9.4500
Lube Distillate	115.4053	4.1700
Finished Lubricating Oils	265.6812	9.6000

*Asphalts:*

RC/MC	79.1508	2.8600
Penetration	64.7598	2.3400

*Components:*

Light Alkylate	157.1947	5.6800
Heavy Alkylate	140.5896	5.0800
Light Hydroformate	145.5711	5.2600
Heavy Hydroformate	127.8591	4.6200
Reformed	131.7336	4.7600
Isopentane	104.8887	3.7900
Concentrate C-6	104.8887	3.7900

*Miscellaneous:*

Varsol	145.0176	5.2400
Slack Wax	96.1434	3.4740
Carbon Black Base	76.1066	2.7500
White Spirits	90.2209	3.2600

*Venezuela*

**Topped Crude Oils**

The export value of topped crude oils shall be determined in accordance with the following formula:

$$Y = \text{Bs/m}^3 \ 64.3447 + 0.5203 X \quad (Y = \text{U.S. \$/barrel } 2.3250 + 0.0188 X)$$

where:

$Y$  = Export Value

$X$  = Original API gravity of the crude oil topped.

*Adjustments*

Whenever retroactive adjustments are made in the selling price of refined products, on account of buyers' claims, duly verified and based on contamination or other circumstances which diminish product quality, the respective export value shall be adjusted by the same amount as the price actually paid, that is, by the same amount of the adjustment granted in accordance with the claim finally acknowledged by the National Executive.

The above export values shall bear a complement on account of geographic location and in terms of freight advantage; it shall be calculated on the first days of the first month of each quarter of 1971, to be applied during the ensuing quarter, and shall be determined in accordance with the following formula:

$$0.33 \{ (\text{AFRA LR II} - 72.5) 100 \text{ W RTR} - (\text{AFRA LR I} - 100.0) 100 \text{ W PCR} \} = \\ = \text{Freight Complement.}$$

where:

**AFRA LR II** = Freight valuation calculated by the London Tankers Brokers Panel for Long Range II oil tankers (80,000-159,999 DWT), expressed in terms of percent of Worldscale, and published on the first day of each month, whenever it is equal to or higher than 72.5 Worldscale.

**AFRA LR I** = Freight valuation calculated by the London Tankers Brokers Panel for Long Range I oil tankers (45,000—79,999 DWT), expressed in terms of percent of Worldscale, and published on the first day of each month, whenever it is equal to or higher than 100 Worldscale.

**100 W RTR** = Basic freight rate published jointly by the International Tanker Nominal Freight Scale, Ltd., of London, England, and the Association of Shipbrokers and Agents, Inc., of New York, United States of America, for the voyage Ras Tanura — Rotterdam, via Cape of Good Hope, expressed in terms of U.S. dollars per barrel for a 34° API crude oil.

**100 W PCR** = Basic freight rate published jointly by the International Tanker Nominal Freight Scale, Ltd., of London, England, and the Association of Shipbrokers and Agents, Inc., of New York, United States of America, for the voyage Punta Cardón — Rotterdam, expressed in terms of U.S. dollars per barrel for a 25° API crude oil.

*Selected Documents — 1971*

To obtain the equivalent value in Bolivars per cubic meter, the result obtained in U.S. \$ per barrel shall be multiplied by 27.67512.

The freight complement shall be applied to all export shipments of crude oils and products.

The Ministries of Finance and of Mines and Hydrocarbons shall establish, through joint resolution, the export value of any new type of hydrocarbon or product not included in the above lists.

The export values given above shall be applied in each sale to the gravity despatched, stated in API degrees, in the case of crude oils, and to the quality actually despatched in the case of products.

The sale of fuels and other products delivered at national ports and airports to vessels and aircraft in international transit shall be considered export sales.

For the purposes of the complementary payment referred to in Article 41 of the Income Tax Law, taxpayers shall state, in their final return their income from export sales, specifying each crude oil and product for which the selling price was lower than the export values established in this Resolution.

The Minister of Finance and of Mines and Hydrocarbons may decide to grant partial or total exoneration of the freight complement and of the premium on the export value of crude oils having gravities lower than 20° API, established above, when deemed advantageous to the national interest.

The present Resolution shall take effect ten (10) days after its publication in the Official Gazette of the Republic of Venezuela.

Hugo Pérez la Salvia  
Minister of Mines and Hydrocarbons

Pedro R. Tinoco, hijo  
Minister of Finance

JOINT RESOLUTION Nos. 1021 AND 798,  
OF 5 MAY 1971,  
OF THE MINISTRIES OF FINANCE AND OF MINES  
AND HYDROCARBONS, ESTABLISHING FREIGHT COMPLEMENT

*Resolved:*

In accordance with the provisions established by Joint Resolution of the Ministry of Finance No. 643 and of the Ministry of Mines and Hydrocarbons No. 408, dated March 8, 1971, establishing the export values for hydrocarbons and their by-products

*Venezuela*

until December 31, 1971, it is hereby made known that the complement on the export value by reason of geographical position referred to in the aforementioned resolution shall be Bs 2.0673 per cubic meter (U.S. \$0.0747 per barrel) for the first quarter of 1971, and Bs 1.5858 per cubic meter (U.S. \$0.0573 per barrel) for the second quarter of 1971.

Let it be known and published,

By the National Executive

Hugo Pérez la Salvia  
Minister of Mines and Hydrocarbons

Pedro R. Tinoco, hijo  
Minister of Finance

**LAW ON THE PROPERTY OR ASSETS SUBJECT TO REVERSION  
IN THE HYDROCARBON CONCESSIONS**

The Congress of the Republic of Venezuela decrees the following Law on the property or assets subject to reversion in the Hydrocarbon Concessions.

**ARTICLE 1**

The land, permanent works including the installations, accessories and equipment which shall form an integral part of the same; and the other assets or property acquired and intended or earmarked for the exploration, exploitation, manufacture, refining and/or transportation works in the hydrocarbon concessions, or for purposes of complying with the obligations derived from such concessions, is a matter of public utility and, for purposes of the reversion, will be governed by this Law.

Any other corporeal property and/or intangible assets acquired by the concessionaires, are deemed to be intended and/or earmarked for the concessions held by the purchasers, excepting cases where proof to the contrary and to the satisfaction of the National Executive is produced by the concessionaire prior to the acquisition of the property or asset, to the execution of any of the acts referred to in Article 8 hereof, or to the time of the extinguishment of the concession.

## ARTICLE 2

The property or assets referred to in the preceding Article, excepting those indicated in the sole paragraph of Article 3 of this Law, shall pass into the national patrimony, free and clear from liens or encumbrances and without tax loads or burdens or any indemnification whatsoever, upon extinguishment for any cause, of the respective concessions; and, therefore, they shall be conserved and maintained by the concessionaires in proven conditions of good operation according to the advances reached and the technical principles applicable thereto, for the purpose of securing the continuity and efficiency of the activities granted, and to guarantee the right of the Nation to resume such activities under conditions which shall permit an adequate performance or execution of the same.

## ARTICLE 3

The hydrocarbon concessionaires shall not utilize in the concessions, property or assets belonging to third parties, whatever shall be the title by which they shall possess and/or utilize such property or assets.

In special cases, or whenever it shall thus be justified, the National Executive may authorize the utilization of property or assets of third parties, in a proportion not exceeding ten percent (10 %) of the value of the net fixed asset of the property or assets referred to in the heading of Article 1 of this Law.

## ARTICLE 4

The property or assets referred to in the preceding Article, will be conserved and maintained by the concessionaires in the manner determined by Article 2 of this Law. Upon extinguishment of the concession for any cause whatsoever, the Nation shall have a right to continue to utilize such property or assets, subject to the terms and conditions established by the National Executive.

## ARTICLE 5

The property or assets referred to in Article 1 and in the sole paragraph of Article 3 hereof, are subject to the control and vigilance of the Nation.

The Ministry of Mines and Hydrocarbons shall inspect and control the activities of the concessionaires with respect to the property or assets referred to in this Law; and, shall have a right to require to be furnished with all of the information it may deem necessary on the matter of utilization, destination and conditions of conservation of such property or assets, as well as a right to prohibit the carrying out of any activity, work and/or act whatsoever that shall represent a violation of the provisions of this Law; and, to order the adoption of whatever measures it may consider necessary to be carried out in order to comply with such purpose.

## *Venezuela*

### **ARTICLE 6**

In order to secure the enforcement of that provided for by Articles 2 and 4 hereof, the hydrocarbon concessionaires shall set up a Guaranty Fund until it reaches ten percent (10 %) of the cost accepted by the General Income Tax Administration for purposes of the depreciation of the assets subject to reversion.

Insofar as to the part not depreciated of the assets, the Fund will be set up with contributions equivalent to ten percent (10 %) of the annual depreciation rates. The part depreciated shall contribute to set up the Fund referred to by means of depositing five (5) to ten (10) equal, annual and consecutive quotas, in accordance with that to be provided for by the Regulations of this Law.

#### *First paragraph*

The Fund thus set up will be deposited in the Central Bank of Venezuela and shall cease to be subject to provisions of this Law, to the extent that, under conditions deemed satisfactory in the judgment of the National Executive, the property or assets to guarantee which the Fund was created, will go on reverting to the Nation.

#### *Second paragraph*

The Fund set up pursuant to provisions of this Article, may be exclusively intended for financial investments by means of an agreement entered into with the National Executive, in the economic activities which the latter shall determine, in Bonds of the Public Debt, or in Securities of any other nature which, in the judgment of the National Executive, will satisfy needs of the national economic development.

#### *Third paragraph*

The contributions effected in order to set up the Fund shall not be deductible for purposes of the Income Tax.

### **ARTICLE 7**

Without prejudice to the legal provisions which impose on them the obligation to apply for the approval of projects, the concessionaires are obligated to inform the Ministry of Mines and Hydrocarbons, with respect to all of the assets they shall acquire for the concessions, or which are affected or assigned to the latter, or are utilized pursuant to that provided for by provisions of the sole paragraph of Article 3 of this Law, within a period of ninety (90) days, counted as of the date of the acquisition, earmarking, assignment and/or agreement on such property or assets; and to furnish any information the aforesaid Ministry may require on the assets referred to, within a period not exceeding thirty (30) days, counted as of the date of the aforesaid requirement from the Ministry.

### **ARTICLE 8**

The concessionaires cannot execute any act whatsoever involving the property or assets referred to in this Law which shall constitute an act of disposal, lien, destruction, dismantling, modification, and, in general, any other act whatsoever of disposal or

*Selected Documents — 1971*

disencumbrance with respect to the concession, or a change of function or of location or place, without the prior authorization given in writing by the Ministry of Mines and Hydrocarbons which shall grant the same, always provided that the act involved shall be necessary for purposes of the work being carried out in the concessions, or may turn out to the benefit of the public interest, taking into consideration the right of reversion enjoyed by the Nation.

*Special paragraph*

The donations which may be authorized in accordance with provisions of this Article, shall not be deductible for purposes of the Income Tax.

**ARTICLE 9**

The property or assets referred to in Article 1 of this Law, and which are disencumbered, disengaged or disaffected from the service to the concessions, shall pass on to the Nation in full ownership and free and clear from all liens and encumbrances, without any indemnity whatsoever.

*Special paragraph*

In cases where property or assets of the type referred to in this Law shall have been disengaged, and/or disaffected from the service to the concessions, the Ministry of Mines and Hydrocarbons shall determine the matter through Resolution wherein, the facts on the basis of which, such Resolution is founded, will be set forth; and the Ministry will also send a copy thereof to the corresponding Registry Office in order that it be registered and the marginal notes be stamped on same according to Law; and, in any case, possession will be taken of the disengaged or disaffected property or assets.

**ARTICLE 10**

In cases where the property or assets referred to in this Law shall be affected or assigned to the service of more than one (1) concession and one (1) or some of the latter shall become extinguished, the concessionaire may continue to utilize the aforesaid property or assets for purposes of the service to the concessions in force; but, by virtue of the fact that such property or assets have become the property of the Nation, in proportion to the concessions extinguished, or if it shall thus be resolved by the National Executive, in proportion to the average volume of production extracted from such concessions during the last ten (10) years preceding the date of their extinguishment, the Nation shall have a right to utilize them in the corresponding proportion.

*Special paragraph*

In the case of concessions annexed to more than one (1) exploitation concession and one (1) or some of the latter shall become extinguished, the concessionaire may continue to utilize the installations of the concession annexed to the exploitation concessions which were granted previously to the granting of the annexed concession. In any case, by virtue of the fact that such property or assets have become the property of the

## *Venezuela*

Nation in proportion to the concessions extinguished, or if it shall thus be resolved by the National Executive, in proportion to the average volume of production extracted from such concessions during the last ten (10) years preceding the date of their extinguishment, the National Executive shall have a right to utilize the installation or to obtain the income benefits derived from such installations, in the corresponding proportion.

### **ARTICLE 11**

The assignment or transfer of a concession shall carry with it the assignment or transfer of all of the property or assets acquired and/or earmarked, intended and/or assigned for such concession. The assignor will continue to be responsible for the obligations which this Law provides for, until such time when the Nation shall approve the assignment or transfer, or until the time when all of the requirements provided for by Law shall have been complied with. Upon approval of the assignment or transfer, or once all of the legal requirements shall have been complied with, the assignee will be subrogated with all of the obligations of the assignor.

### **ARTICLE 12**

The hydrocarbon concessionaires are obligated to explore, according to the applicable technical principles, the areas which have been granted to them as concessions, in order to determine the deposits which may exist therein; and shall carry out and comply with the programs and provisions which, in this respect the Ministry of Mines and Hydrocarbons shall enact for the purpose of maintaining an adequate level of reserves for an exploitation which shall guarantee the continuity and efficiency of the activity that has been granted to them.

### **ARTICLE 13**

The hydrocarbon concessionaires who, according to the terms provided for by the preceding Article, shall not comply with their obligation to explore the areas which have been granted to them in the terms indicated in the preceding Article, shall restore them to the Nation, for which purpose the Ministry of Mines and Hydrocarbons may enact Resolutions to set forth the facts that shall constitute the lack of compliance with the aforesaid obligation, and also the extension of the areas to be returned which may be smaller than the extension of the respective concession.

### **ARTICLE 14**

In cases where, by effect of that provided for by the two preceding Articles, the restitution or return to the Nation of specified areas of concessions shall occur, the provisions established in Article 10 of this Law, in so far as to the entry into the national patrimony of property or assets or plants of the annexed concessions, shall not be applied.

#### ARTICLE 15

In cases where it shall be convenient for the interest, the National Executive may require the restitution or return of the oil fields the exploitation of which shall no longer be economic for the concessionaire, which fields shall be returned to the Nation together with all of the installations, equipment and property or assets affected and/or assigned to them, for which purpose the Ministry of Mines and Hydrocarbons shall enact Resolutions to set forth the facts and the extension of the areas to be returned which may be smaller than the extension of the respective concession.

#### ARTICLE 16

The Registrars, Notaries Public, Judges and any other authorities shall abstain from admitting, registering, verifying or acknowledging the signatures, authenticating or attesting to, and/or from executing a document or deed in which it shall be pretended to effect or execute acts intended to sell or transfer and/or encumber, or impose burdens or obligations on the property or assets referred to in this Law, or in any other manner whatsoever intended to impair, damage and/or prejudice the rights which the aforesaid Law grants to the Nation, in cases where the authorization in writing issued by the Ministry of Mines and Hydrocarbons for such acts is not attached thereto, because, without the aforesaid authorization, such acts are null and void and shall take no effect whatsoever with respect to the Nation.

#### ARTICLE 17

Upon the extinguishment of a concession, the Ministry of Mines and Hydrocarbons shall attest to such fact by means of a Resolution to be published in the Official Gazette of the Republic of Venezuela, which shall also be sent to the corresponding Registry Offices in order that it be recorded and the marginal notes required according to Law be stamped on them, together with the inventory drawn up of the property or assets involved.

#### ARTICLE 18

The violations of provisions of this Law shall be punished with fines to the amount of fifty thousand to one million bolívares (Bs 50,000 to Bs 1,000,000), to be imposed by the Ministry of Mines and Hydrocarbons, by means of a Resolution, without prejudice to the civil, penal and/or administrative actions the violation may originate, or to the police measures that may be taken in order to restore the legal situation infringed upon and/or to prevent such violation.

#### ARTICLE 19

The Resolutions enacted for purposes of the enforcement of this Law will be appealable to one sole effect before the Political and Administrative Division of the Supreme

*Venezuela*

Court of Justice, within the ten (10) working days following the date of publication of the aforesaid Resolutions in the Official Gazette of the Republic of Venezuela.

**ARTICLE 20**

The provisions of this Law are of public order in character, and, therefore, will be applied immediately to the present hydrocarbons concessionaires.

**ARTICLE 21**

For purposes of everything not provided for by this Law, there will be applied as supplemental rules and provisions, the rules on the matter contained in other legal provisions.

**TRANSITORY PROVISIONS**

**ARTICLE 22**

For purposes of that provided for by Articles 12 and 13 of this Law, the present hydrocarbon concessionaires shall comply with the obligation to explore the areas granted to them as concessions, within the period of three (3) years, following the date of enactment of this Law.

**ARTICLE 23**

Without prejudice to the information they shall have furnished, or will furnish, as provided for by other legal provisions, the hydrocarbon concessionaires will send to the Ministry of Mines and Hydrocarbons, within a period of one (1) year, counted as of the date of the coming into force of this Law, an inventory of all of the property or assets acquired by them or which are affected, earmarked or assigned to the concessions of which they are the holders.

Given, Signed and Sealed, in the Federal Legislative Palace, in Caracas, on the Nineteenth Day of the Month of July, One Thousand Nine Hundred and Seventy-One (1971). — Year 162nd of the Independence and 113th of the Federation.

**The President**

(L. S.)

Jose Antonio Perez Diaz

**The Vice President**

Antonio Leidenz

**The Secretaries**

Héctor Carpio Castillo

J. Rivera Oviedo

*Selected Documents — 1971*

Miraflores Palace, in Caracas, on the Thirtieth Day (30) of the Month of July, One Thousand Nine Hundred and Seventy-One (1971). Year 162nd of the Independence and 113th of the Federation.

(L. S.)

R. Caldera

Countersigned

The Minister of Finance

(L. S.)

Pedro R. Tinoco, Jr.

Countersigned

The Minister of Mines and Hydrocarbons

(L. S.)

Hugo Pérez la Salvia

**DECREE No. 666 OF 4 AUGUST 1971**

Rafael Caldera,  
President of the Republic,  
in exercise of the attribution conferred by Ordinal 10 of Article 190 of the Constitution,  
and pursuant to the provisions of Article 3, paragraph 2, letter (d), subsection 4 of the  
Law of Hydrocarbons, in Council of Ministers,

*Decrees*  
the following

**PARTIAL REGULATION OF THE LAW OF HYDROCARBONS  
RELATIVE TO THE PAYMENT OF THE FISCAL OBLIGATIONS  
DERIVED FROM SERVICE CONTRACTS**

**ARTICLE 1**

The payment of taxes, contributions and other fiscal obligations established by the Law of Hydrocarbons that shall be made by contractors to the National Treasury on behalf of, on account, and by order of the Corporación Venezolana del Petróleo by reason of having entered into the agreements provided for in Article 3, paragraph 2, letter (b) of said Law, in conformity with the same paragraph 2, letter (d), subsection 4, shall be effected in accordance with the norms herein established.

*Venezuela*

**ARTICLE 2**

The first annual payment of the exploration tax provided for in Article 38 of the Law of Hydrocarbons shall be effected within fifteen succeeding days from the date of publication in the Official Gazette of the approval of the agreements by the President of the Republic in the Council of Ministers. Each contractor shall request issuance of the respective tax bill in the event that such had not been issued ex-officio, and in no case shall the agreement be subscribed until such payment has been effected. Subsequent annual payments shall be effected within ten days in advance from the anniversary date of the said publication in the Official Gazette. There shall not be reimbursements if, before the expiration of any year of the exploratory period, the contractor should discontinue, interrupt, or complete in advance the exploration program agreed to, nor if the selection of the lot had been made beforehand and exploitation initiated during that period.

**ARTICLE 3**

The initial exploitation tax established by Article 39 of the Law of Hydrocarbons shall be paid within fifteen days from the date of publication in the Official Gazette of the Resolution approving the plans of each lot selected by the contractor. The latter shall request issuance of the corresponding tax bill when such had not been issued ex-officio.

**ARTICLE 4**

The surface tax referred to in Article 40 of the Law of Hydrocarbons shall be paid starting from the date of publication in the Official Gazette of the Resolution approving the plans provided for in Article 3 hereunder, in the form stipulated in Article 40 of said Law.

**ARTICLE 5**

The exploitation tax on the petroleum extracted shall be paid in accordance with the provisions of Ordinal 1 of Article 41 of the Law of Hydrocarbons, and of Articles 64, 69 and 70 of its Regulations. In the event that the National Executive should decide to collect in cash, such tax shall be calculated in accordance with the special agreements that shall be subscribed to this end with the Corporación Venezolana del Petróleo, taking as a basis the reference values for royalty of the agreements in force for similar hydrocarbons. The realized prices obtained above the values determined in accordance with the agreements referred to shall prevail on these values. At the end of each Fiscal Year each contractor shall submit to the National Executive a record of the sales made during the year on which the realized prices may have been higher than the reference values, specifying each type of petroleum, and the National Executive shall issue a tax bill for the exploitation tax corresponding to the difference.

Should the National Executive resolve to collect the exploitation tax in kind, the rules established in paragraph 1 of Article 50 of said Law shall apply.

*Selected Documents — 1971*

**ARTICLE 6**

The exploitation tax on the associated natural gas produced shall be paid in accordance with the provisions of Ordinal 3 of Article 41 of the Law of Hydrocarbons.

**ARTICLE 7**

Pursuant to Article 45 of the Law of Hydrocarbons, the contractors shall pay to the National Treasury one hundred bolivars for each one of the copies of the plans delivered to them in compliance with said Law.

**ARTICLE 8**

Whatever is not provided for in this regulation shall be resolved by the Minister of Mines and Hydrocarbons.

Given in Caracas, on the fourth day of the month of August, nineteen hundred and seventy-one. 162nd Year of Independence and 113th Year of Federation.

R. Caldera  
(Seal)

Countersigned:

Hugo Pérez la Salvia  
The Minister of Mines and Hydrocarbons  
(Seal)

**JOINT RESOLUTION Nos. 1171 AND 1346,  
OF 11 AUGUST 1971,  
OF THE MINISTRIES OF FINANCE AND OF MINES  
AND HYDROCARBONS, ESTABLISHING FREIGHT COMPLEMENT**

*Resolved:*

In accordance with the provisions established by Joint Resolution of the Ministry of Finance No. 643 and of the Ministry of Mines and Hydrocarbons No. 408, dated March 8, 1971, establishing the export values for hydrocarbons and their by-products

*Venezuela*

until December 31, 1971, it is hereby made known that the complement on the export value by reason of geographical position referred to in the aforementioned resolution shall be Bs 1.7297 per cubic meter (U.S. \$0.0625 per barrel) for the third quarter of 1971.

Let it be known and published,

By the National Executive,

Hugo Pérez la Salvia  
Minister of Mines and Hydrocarbons

Pedro R. Tinoco, hijo  
Minister of Finance

**THE CONGRESS OF THE REPUBLIC OF VENEZUELA**

**LAW TO RESERVE FOR THE STATE  
THE NATURAL GAS INDUSTRY**

*Decrees*

the following

**ARTICLE 1**

For reasons of national expediency, the gas industry originating from hydrocarbon deposits is hereby reserved for the State.

**ARTICLE 2**

The gas industry shall be exercised by the National Executive and it will be exploited through the agency of the Venezuelan Petroleum Corporation.

Any other agency or means of exploitation of this industry shall be authorized by Special Law.

**ARTICLE 3**

The hydrocarbon concessionaires are obligated to deliver to the State the gas produced as a result of their operations, at such time, in the measured quantity and subject to the terms and conditions to be determined by the National Executive.

*Selected Documents — 1971*

**ARTICLE 4**

In cases of concessions that are not under exploitation, or of concessions that are not being satisfactorily exploited, the National Executive shall, likewise, determine the terms and conditions for purposes of the extraction and delivery of the gas, without prejudice to its right of taking charge of the carrying out of the operations.

**ARTICLE 5**

There can only be liquefied the gas produced associated with the petroleum, and which shall not be in storage tanks by reason of conservation, excepting such cases where it shall be deemed that it is more convenient for the Nation to reinject such gas into the deposit, or to utilize it for other purposes of major public interest. Whenever the operation of the reinjection of the gas into the deposit shall be considered as an efficient and economic operation in view of the gas that is conserved, or by reason of the quantity of recoverable crude, the aforesaid reinjection operation shall be carried out with preference over the reinjection of any other substance. The concessionaires shall grant all of the operating facilities for purposes of the gas conservation programs. The National Executive shall provide for the destination of the gas that cannot be received by the State.

**ARTICLE 6**

The National Executive shall establish the measure or extent and the terms and conditions subject to which the hydrocarbon concessionaires may utilize in their operations the associate gas which is produced with the petroleum.

**ARTICLE 7**

By virtue of the obligation imposed on the concessionaires by provisions of Article 3 of this Law, the State shall pay to such concessionaires, the expenses incurred by reason of the gathering, compression and delivery of the gas in accordance with the rules fixed for such purpose by the National Executive.

**ARTICLE 8**

In case the State shall decide to assume control of the operations covering the gathering, compression and treatment of the gas in plants at present being carried out by the concessionaires, the State shall pay to such concessionaires a compensation equivalent to a part, not depreciated, of the amount of the cost of the installations and equipment required for such operations, or equivalent to the surrender value of the aforesaid installations and equipment, if the said value should amount to less than the amount of the former. The payment of this compensation may be deferred for a specified period

### *Venezuela*

not exceeding ten (10) years, or it may be cancelled by means of an issue of bonds with a sufficient guarantee and an obligatory acceptance condition.

The National Executive's decision with respect to the aforesaid compensation may be appealed before the Political and Administrative Division of the Supreme Court of Justice, within a period of ten (10) days following the date of the respective notification.

### **ARTICLE 9**

In addition to the inspection and fiscalization (auditing) powers conferred on the National Executive by the provisions of the Law, the National Executive shall inspect and fiscalize all the works and activities related to gas for the purposes provided for by this Law.

### **ARTICLE 10**

Any violation whatsoever of provisions of this Law will be penalized with a fine from an amount of twenty-five thousand bolívares to five hundred thousand bolívares (Bs 25,000 to Bs 500,000), to be imposed by the Ministry of Mines and Hydrocarbons. The aforesaid fines may be appealed from before the Political and Administrative Division of the Supreme Court of Justice, within a period of ten (10) days counted as of the date of the respective notification.

### **ARTICLE 11**

In addition to that provided for by the preceding Article, the sale, transfer and/or any other act of disposal of the gas, executed in violation of provisions of this Law, shall cause the confiscation or seizure of the gas, in accordance with the procedure provided for by the Organic Law of National Public Finance, insofar as it may be applicable.

### **ARTICLE 12**

The provisions contained in the two preceding Articles shall be applied without prejudice to the application of the penalties provided for by other legal and/or regulatory provisions and to the civil, penal and/or fiscal actions which the violation may originate.

### **ARTICLE 13**

The National Executive shall determine everything related to the gas that, on or before the date of the coming into force of this Law is being processed or treated in natural gasoline plants, or intended for other industrial processes and, in general, everything related to all the gas which shall be the object of any juridical business on the part of the concessionaires, or of any other persons.

*Selected Documents — 1971*

**ARTICLE 14**

The provisions of this Law have a public order character and, therefore, will be applied immediately to the present hydrocarbon concessionaires.

**ARTICLE 15**

The National Executive is hereby authorized to enact the necessary provisions and take the pertinent measures in order that provisions of this Law be duly enforced and complied with.

**TRANSITORY PROVISION**

**ARTICLE 16**

There shall remain in full force the juridical situations related to the natural gas which shall be existent.

Given, Signed and Sealed in the Federal Legislative Palace, in Caracas, on the twelfth (12th) day of the month of August, One Thousand Nine Hundred and Seventy-One (1971). Year 162nd of the Independence and 113th of the Federation.

The President  
(L. S.)  
J. A. Pérez Diaz

The Vice President  
Antonio Leidenz

The Secretaries  
J. E. Rivera Oviedo  
Héctor Carpio Castillo

Miraflores Palace, in Caracas, on the twenty-sixth (26th) day of the month of August, One Thousand Nine Hundred and Seventy-One (1971). Year 162nd of the Independence and 113th of the Federation.

Be It Complied With  
(L. S.)  
R. Caldera

Countersigned  
The Minister of Mines and Hydrocarbons  
(L. S.)  
Hugo Pérez la Salvia

*Venezuela*

JOINT RESOLUTION Nos. 1219 AND 1594,  
DATED 17 SEPTEMBER 1971,  
OF THE MINISTRIES OF FINANCE AND OF MINES  
AND HYDROCARBONS, ESTABLISHING MINIMUM EXPORT VALUES

*Resolved:*

In accordance with the provisions of Article 41 of the Income Tax Law, and of Article 4, of the Regulation for the Establishment of Export Values, and in accordance with Joint Resolution of the Ministries of Finance and of Mines and Hydrocarbons dated March 8, 1971, the minimum values f.o.b. Venezuelan loading port are hereby established, for the following types of hydrocarbon by-products exported until December 31, 1971:

*Export Values Applicable to Low Viscosity Residual Fuels*

<i>Percentage of Sulphur</i>	<i>Bs/m³</i>	<i>Values U.S. \$/barrel</i>
1.9	79.5660	2.8750
1.8	79.5660	2.8750
1.7	79.5660	2.8750
1.6	80.0364	2.8920
1.5	83.0807	3.0020
1.4	85.5715	3.0920
1.3	87.7855	3.1720
1.2	89.5567	3.2360
1.1	91.3279	3.3000
1.0	93.0714	3.3630
0.9	94.8426	3.4270
0.8	96.5862	3.4900
0.7	98.3574	3.5540
0.6	100.1009	3.6170
0.5	101.8721	3.6810
0.4	103.6156	3.7440
0.3	105.3869	3.8080

Low viscosity residual fuels are those with viscosities ranging from 71 to 40 SSU at 122° F.

The export values established by this resolution shall be added to the list of export values applicable to refined products, established in the Joint Resolution dated March 8, 1971.

Let it be known and published,

Hugo Pérez la Salvia  
Minister of Mines and Hydrocarbons

Pedro R. Tinoco, hijo  
Minister of Finance

*Selected Documents — 1971*

JOINT RESOLUTION Nos. 1833 AND 1248,  
OF 26 OCTOBER 1971,  
OF THE MINISTRIES OF FINANCE AND OF MINES  
AND HYDROCARBONS, ESTABLISHING FREIGHT COMPLEMENT

*Resolved:*

In accordance with the provisions established by Joint Resolution of the Ministry of Finance No. 643 and of the Ministry of Mines and Hydrocarbons No. 408, dated March 8, 1971, establishing the export values for hydrocarbons and their by-products until December 31, 1971, it is hereby made known that the complement on the export value by reason of geographical position referred to in the aforementioned resolution shall be Bs 0.9714 per cubic meter (U.S. \$0.0351 per barrel) for the fourth quarter of 1971.

Let it be known and published,

By the National Executive,

Hugo Pérez la Salvia  
Minister of Mines and Hydrocarbons

Pedro R. Tinoco, hijo  
Minister of Finance

ACCORD OF THE SENATE OF THE REPUBLIC AUTHORIZING  
THE NATIONAL EXECUTIVE TO TRANSFER RIGHTS TO CVP

CONGRESS OF THE REPUBLIC  
THE SENATE  
OF THE REPUBLIC OF VENEZUELA

Having noted official request No. C.J-2249 of October 27, 1971 of the Minister of Mines and Hydrocarbons;  
Having heard the favorable report of the Standing Committee of Mines and Hydrocarbons;

*Venezuela*

Pursuant to subsection 2 of Article 150 of the Constitution, and in accordance with letter (b), paragraph 2 of Article 3 of the Law of Hydrocarbons,

*Resolves:*

**ARTICLE 1**

To authorize the National Executive to transfer to Corporación Venezolana del Petróleo, an autonomous institute attached to the Ministry of Mines and Hydrocarbons, created by Decree No. 260 of April 19, 1960, published in the Official Gazette of the Republic of Venezuela No. 26,234 on the twenty-second day of the same month and year, the rights of exploration and exploitation of hydrocarbons in the areas hereunder specified:

Assignment of 181,000 Hectares comprising the waters of the Caribbean Sea near to the coast of Districts Falcón, Miranda, Colina and Zamora of the State of Falcón and the lands situated in the jurisdiction of the Falcón District of the same state. This assignment comprises 18 lots of 10,000 hectares each and one lot of 1,000 hectares herein described as follows: Departing from point No. 1, situated at the Northwestern apex of the lot, whose coordinates are: N. 264,000.00, E. 172,000.00; due East 12,000 meters to point No. 2, whose coordinates are: N. 264,000.00, E. 184,000.00; from this point due South 4,000 meters to point No. 3, whose coordinates are: N. 260,000.00, E. 184,000.00; from this point due East 4,000 meters to point No. 4, whose coordinates are: N. 260,000.00, E. 188,000.00 from this point due South 4,000 meters to point No. 5, whose coordinates are: N. 256,000.00, E. 188,000.00; from this point due East 4,000 meters to point No. 6, whose coordinates are: N. 256,000.00, E. 192,000.00; from this point due South 4,000 meters to point No. 7, whose coordinates are: N. 252,000.00, E. 192,000.00; from this point due East 4,000 meters to point No. 8, whose coordinates are: N. 252,000.00, E. 196,000.00; from this point due South 8,000 meters to point No. 9, whose coordinates are: N. 244,000.00, E. 196,000.00; from this point due East 4,000 meters to point No. 10, whose coordinates are: N. 244,000.00, E. 200,000.00; from this point due South 4,000 meters to point No. 11, whose coordinates are: N. 240,000.00; E. 200,000.00; from this point due East 4,000 meters to point No. 12, whose coordinates are: N. 240,000.00, E. 204,000.00; from this point due South 4,000 meters to point No. 13, whose coordinates are: N. 236,000.00, E. 204,000.00; from this point due East 4,000 meters to point 14, whose coordinates are: N. 236,000.00, E. 208,000.00; from this point due South 4,000 meters to point No. 15, whose coordinates are: N. 232,000.00, E. 208,000.00; from this point due East 8,000 meters to point No. 16, whose coordinates are: N. 232,000.00, E. 216,000.00; from this point due South 4,000 meters to point No. 17, whose coordinates are: N. 228,000.00, E. 216,000.00; from this point due East 4,000 meters to point No. 18, whose coordinates are: N. 228,000.00, E. 220,000.00; from this point due South 4,000 meters to point No. 19, whose coordinates are: N. 224,000.00, E. 220,000.00; from this point due East 12,000 meters to point No. 20, whose coordinates are: N. 224,000.00, E. 232,000.00; from this point due South 4,000 meters to point No. 21, whose coordinates are: N. 220,000.00, E. 232,000.00.

*Selected Documents — 1971*

dinates are: N. 220,000.00, E. 232,000.00; from this point due East 8,000 meters to point No. 22, whose coordinates are: N. 220,000.00, E. 240,000.00; from this point due South 4,000 meters to point No. 23, whose coordinates are: N. 216,000.00, E. 240,000.00; from this point due East 4,000 meters to point No. 24, whose coordinates are: N. 216,000.00, E. 244,000.00; from this point due South 7,000 meters to point No. 25, whose coordinates are: N. 209,000.00, E. 244,000.00; from this point due West 56,000 meters to point No. 26, whose coordinates are: N. 209,000.00, E. 188,000.00; from this point due North 7,000 meters to point No. 27, whose coordinates are: N. 216,000.00, E. 188,000.00; from this point due West 4,000 meters to point No. 28, whose coordinates are: N. 216,000.00, E. 184,000.00; from this point due North 4,000 meters to point No. 29, whose coordinates are: N. 220,000.00, E. 184,000.00; from this point due West 3,500 meters to point No. 30, whose coordinates are: N. 220,000.00, E. 180,500.00; from this point due North 12,000 meters to point No. 31, whose coordinates are: N. 232,000.00, E. 180,500.00; from this point due West 4,500 meters to point No. 32, whose coordinates are: N. 232,000.00, E. 176,000.00; from this point due North 20,000 meters to point No. 33, whose coordinates are: N. 252,000.00, E. 176,000.00; from this point due West 4,000 meters to point No. 34, whose coordinates are: N. 252,000.00, E. 172,000.00; from this point due North 12,000 meters to point of departure No. 1 and thus close an irregular polygon of 181,000 hectares. This area has the following boundaries: to the North, the Caribbean Sea; to the East, the Caribbean Sea; to the South the Caribbean Sea and the Isthmus of Médanos and to the West the Isthmus of Médanos and the Paraguaná Peninsula. The coordinates system used to describe the subject area has its reference point the concrete post No. PR-1 located in the square across from the church of La Vela, whose coordinates are: N. 200,000.00, E. 200,000.00.

**ARTICLE 2**

Let it be known to the National Executive.

Given, signed and sealed at the Federal Legislative Palace in Caracas, on the fifteenth day of December nineteen hundred and seventy-one. 162nd Year of Independence and 113th of Federation.

J. A. Perez Diaz  
The President  
(Seal)

J. E. Rivera Oviedo  
The Secretary

*Venezuela*

DECREE No. 832 OF 17 DECEMBER 1971

Rafael Caldera,  
President of the Republic,  
in exercise of the attribution conferred by Ordinal 10 of Article 190 of the Constitution, for the purpose of regulating the provisions contained in Articles 59, 68 and 76 of the Law of Hydrocarbons and in Articles 12, 13, 15 and 22 of the Law of Assets Subject to Reversion in the Hydrocarbons Concessions, in Council of Ministers,

*Decrees:*

ARTICLE 1

Hydrocarbons concessionaires are obligated to maintain their concessions under exploitation in accordance with the dispositions on conservation stipulated by the Ministry of Mines and Hydrocarbons.

ARTICLE 2

Concessionaires shall maintain in their concessions a degree of exploration corresponding to the exploitation thereof, in all those cases in which the exploration performed until now is deemed by the Ministry of Mines and Hydrocarbons to be insufficient, all in accordance with the dispositions issued by said Ministry.

ARTICLE 3

Prior to the first day of December of each year, the concessionaires shall submit for the approval of the Ministry of Mines and Hydrocarbons their exploration, production, sales and investment programs for the following year.

ARTICLE 4

In the programs referred to in the preceding Article, the concessionaires shall indicate their intended relinquishments of concessions. The Ministry shall decide whatever is pertinent, taking into account the dispositions issued and the programs formulated.

ARTICLE 5

The concessionaires shall provide all the information required from them by the Ministry of Mines and Hydrocarbons and inform the latter, every two months, of the fulfillment and development of the exploration, production, sales and investment programs.

*Selected Documents — 1971*

**ARTICLE 6**

The concessionaires shall submit for approval of the Ministry of Mines and Hydrocarbons, no less than thirty days in advance, the modifications they consider necessary to make in the approved exploration, production, sales and investments programs.

**ARTICLE 7**

The Ministry of Mines and Hydrocarbons may order the suspension or reduction of the production of the concessionaire whenever it deems that the programs approved in accordance with Article 3 of this Decree are being carried out in a manner that may cause damage to the Nation.

**ARTICLE 8**

Infringements to the obligations derived from this Decree shall be penalized by the sanctions provided for in the Law of Hydrocarbons or in the Law of Assets Subject to Reversion in the Hydrocarbon Concessions, as the case may be, without prejudice to the application of the sanctions and measures established by other legal or regulatory dispositions and to the civil, penal or fiscal actions to be taken to reinstate the legal situation infringed or to impede the infringement.

**ARTICLE 9**

The resolutions issued implementing this Decree may be appealed, to one sole effect, before the Political-Administrative Chamber of the Supreme Court, within ten working days following the publication of such resolutions in the Official Gazette of the Republic of Venezuela.

*Transitory Provision*

**ARTICLE 10**

The concessionaires shall submit to the Ministry of Mines and Hydrocarbons, during the month of January 1972, the programs and indications established in Articles 3 and 4 of this Decree, corresponding to the aforesaid year.

Given in Caracas, on the seventeenth day of the month of December, nineteen hundred and seventy-one. 162nd Year of the Independence and 113th of the Federation.

Rafael Caldera  
(Seal)

Countersigned:

The Minister of Mines and Hydrocarbons  
Hugo Pérez la Salvia  
(Seal)

*Venezuela*

JOINT RESOLUTION Nos. 1307 AND 2342 OF THE MINISTRIES OF  
FINANCE AND OF MINES AND HYDROCARBONS, ESTABLISHING  
MINIMUM EXPORT VALUES

Republic of Venezuela, Ministry of Finance — General Administration of the Income Tax No. 1307 — Ministry of Mines and Hydrocarbons — Direction General No. 2342 — Caracas, December 21, 1971.

*Resolved:*

Pursuant to the provisions of Article 41 of the Income Tax Law, and of Article 4 of the Regulation for the Establishment of Export Values, the minimum values f.o.b. Venezuelan loading port are herein established for the hydrocarbons and their derivatives exported between January 1, 1972, and December 31, 1972, both dates included:

I. Export Values Applicable to Crude Oils

1. *Natural Crude Oils:*

<i>Gravity API</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
7.0	67.8040	2.5070
8.0	67.8040	2.5070
9.0	67.8040	2.5070
10.0	67.8040	2.5070
11.0	67.8040	2.5070
12.0	72.6475	2.6861
13.0	73.0626	2.7014
14.0	73.4777	2.7168
15.0	73.8928	2.7321
16.0	74.3079	2.7474
17.0	74.7230	2.7628
18.0	75.1381	2.7781
19.0	75.5532	2.7935
20.0	75.9683	2.8088
21.0	76.3834	2.8242
22.0	76.7985	2.8395
23.0	77.2136	2.8549
24.0	77.6287	2.8702
25.0	78.0438	2.8856
26.0	78.4589	2.9009
27.0	78.8740	2.9163
28.0	79.2891	2.9316
29.0	79.7042	2.9470
30.0	80.8942	2.9910

\* The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

*Selected Documents — 1971*

<i>Gravity API</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
31.0	82.0843	3.0350
32.0	83.2743	3.0790
33.0	84.4643	3.1230
34.0	85.6544	3.1670
35.0	86.8444	3.2110
36.0	88.0344	3.2550
37.0	89.2244	3.2990
38.0	90.4145	3.3430
39.0	91.6045	3.3870
40.0	92.7945	3.4310
41.0	92.7945	3.4310
42.0	92.7945	3.4310
43.0	92.7945	3.4310
44.0	92.7945	3.4310
45.0	92.7945	3.4310
46.0	92.7945	3.4310
47.0	92.7945	3.4310
48.0	92.7945	3.4310
49.0	92.7945	3.4310
50.0	92.7945	3.4310
51.0	92.7945	3.4310
52.0	92.7945	3.4310
53.0	92.7945	3.4310

The indicated values shall apply to shipments falling within any full degree of API gravity; any intermediate variation in terms of tenths of API degree, shall be adjusted as follows:

1. For crudes whose gravity falls within 12.0 and 28.9 degrees API, the adjustment shall be effected at the rate of Bs 0.04151 per cubic meter (U.S. \$0.00153 per barrel \*) for each tenth of degree API, rounding out the result to the fourth complete decimal.
2. For crudes whose gravity falls within 29.0 and 39.9 degrees API, the adjustment shall be effected at the rate of Bs 0.119003 per cubic meter (U.S. \$0.00440 per barrel \*) for each tenth of degree API, rounding out the result to the fourth complete decimal.

No adjustment shall be made for variations in gravity for crudes whose gravity falls within 7.0 and 11.9 degrees API and for crudes of over 40.0 degrees API.

**2. Natural Condensate Crude Oils:**

Natural Condensate Crude Oils are deemed those hydrocarbons which are liquid when under atmospherical conditions and in a gaseous state when under the original conditions of the reservoir, which are not obtained by the processes

---

\* The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

*Venezuela*

of absorption, adsorption, compression, refrigeration or a combination of such processes, and having a gravity higher than 40.9° API at 15.56° C (60° F). These crudes shall have a flat export value, irrespective of variations in gravity, of Bs 69.7413 per cubic meter (U.S. \$2.5786 per barrel \*).

3. *Reconstituted Crude Oils:*

Reconstituted Crude Oils are those hydrocarbons resulting from blending natural crude oils with one or more products, each shipment having a maximum proportion of products of 60 %. The export values applicable to reconstituted crude oils exported during the period referred to in this Resolution shall be determined as follows:

1. The export value of each crude oil included in the reconstituted crude oil shall be determined in accordance with the export value applicable to the gravity of the natural crude oil before blending.
2. The export value of each product included in the reconstituted crude oil shall be determined in accordance with the corresponding export value, less ten percent (10 %) of said value, on account of their being unfinished products. This deduction shall not apply to the volume of products that exceeds 60 % of the total shipment's total volume.
3. The export value for each shipment of reconstituted crude oils shall be determined by dividing the sum of the results of the multiplications of the volume of each component by their respective export value, as determined in accordance with the provisions of sections 1 and 2 above, by the entire volume of the reconstituted crude oil loaded.

II. Export Values Applicable to Hydrocarbon Derivatives

1. Liquefied Gas Plant Products:	Bs/m <sup>3</sup>	U.S. \$/barrel *
Propane	69.7413	2.5786
Butane	64.2063	2.3740
Isobutane	73.3391	2.7116
Natural Gasoline	69.7413	2.5786

The export values of butane and propane blends shall be determined on the basis of the volume of each component.

The export values indicated in this resolution for Liquefied Gas Plant Products are subject to the determinations which may be taken by the National Executive pursuant to the provisions of Article 13 of the Law to Reserve the Natural Gas Industry to the State.

2. Aviation Fuels:	Bs/m <sup>3</sup>	U.S. \$/barrel *
1. Aviation Gasoline		
Grade 115/145	196.4103	7.2620
Grade 100/130	181.4381	6.7085
Grade 91/98	164.1688	6.0700
Grade 80/87	158.2740	5.8520

The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

*Selected Documents — 1971*

	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
<b>2. Aviation Turbo Fuels</b>		
Turbo Fuel Naphtha	75.9682	2.8088
Turbo Fuel Kerosene	110.0916	4.0705
<b>3. Motor Gasoline, finished, unfinished, blending agents, and naphthas:</b>		
101 Octane Research	128.8277	4.7633
100 Octane Research	124.9808	4.6210
99 Octane Research	121.1617	4.4798
98 Octane Research	117.3425	4.3386
97 Octane Research	115.1008	4.2557
96 Octane Research	112.8868	4.1739
95 Octane Research	110.6451	4.0910
94 Octane Research	107.7669	3.9846
93 Octane Research	104.9164	3.8792
92 Octane Research	102.6747	3.7963
91 Octane Research	100.4330	3.7134
90 Octane Research	98.2190	3.6315
89 Octane Research	96.2817	3.5599
88 Octane Research	94.3722	3.4893
87 Octane Research	92.4626	3.4187
86 Octane Research	90.7744	3.3563
85 Octane Research	89.1139	3.2949
84 Octane Research	87.4257	3.2325
83 Octane Research	85.7652	3.1711
82 Octane Research	84.5475	3.1260
81 Octane Research	83.3298	3.0810
80 Octane Research	82.0844	3.0350
79 Octane Research	80.8667	2.9900
78 Octane Research	79.6490	2.9449
77 Octane Research	78.4313	2.8999
76 Octane Research	77.1859	2.8539
75 Octane Research or less	75.9682	2.8088

The export value of Naphthas shall be determined in accordance with their Research octane number, by applying the same values as established above for motor gasolines.

	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
<b>4. Kerosene:</b>		
Kerosene	110.0916	4.0705
Stove Oil	104.6120	3.8679

\* The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

*Venezuela*

5. *Distillates (Diesel Oil/Gas Oil):*      *Bs/m<sup>3</sup>*      *U.S. \$/barrel \**

1. *Heavy Distillates (71.0 to 54.1 SSU/122° F)*

*having less than 43*

diesel index	98.6618	3.6479
43-47 diesel index	99.8242	3.6909
48-52 diesel index	100.9865	3.7339
53 diesel index or more	102.1489	3.7768

2. *Medium Distillates (54.0 to 39.1 SSU/122° F)*

*having less than 43*

diesel index	105.5806	3.9037
43-47 diesel index	106.7429	3.9467
48-52 diesel index	107.9053	3.9897
53 diesel index or more	109.0676	4.0326

3. *Light Distillates (39.0 to 29.1 SSU/122° F)*

*having less than 43*

diesel index	109.7319	4.0572
43-47 diesel index	110.8942	4.1002
48-52 diesel index	112.0566	4.1432
53 diesel index or more	113.2189	4.1861

When the sulphur content of the distillate loaded be lower than 0.21 % in weight, a premium of Bs 5.5350 per cubic meter (U.S. \$0.2047 per barrel \*) shall be added to the respective value.

6. *Residual Fuels:*      *SSU/122° F*      *Bs/m<sup>3</sup>*      *U.S. \$/barrel \**

1. *Of high sulphur content (1.51 % in weight or more)*

Heavy residual fuel	7,000—3,001	70.7099	2.6144
Medium residual fuel	3,000— 825	73.4777	2.7168
Light residual fuel			
i) Special	824— 195	79.0125	2.9214
ii) Fuel N° 4	194— 71.1	84.5475	3.1260

2. *Of low sulphur content:*

Residual fuels of low sulphur content are herein deemed those fuels with viscosities ranging from 7,000 to 39.1 SSU at 122° F and with sulphur content of 1.5 % in weight or lower.

<i>Percent Sulphur</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
1.41 to 1.50	89.7393	3.3180
1.31 to 1.40	92.0641	3.4040
1.21 to 1.30	94.3860	3.4898
1.11 to 1.20	96.7107	3.5758

The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

*Selected Documents — 1971*

<i>Percent Sulphur</i>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
1.01 to 1.10	99.0326	3.6616
0.91 to 1.00	101.3574	3.7476
0.81 to 0.90	103.6793	3.8334
0.71 to 0.80	106.0040	3.9194
0.61 to 0.70	108.3260	4.0052
0.51 to 0.60	110.6507	4.0912
0.41 to 0.50	112.9726	4.1770
0.31 to 0.40	115.2973	4.2630
0.21 to 0.30	117.6193	4.3488
<b>7. Lubricating Oils:</b>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
Solvent Neutral Oils	265.5428	9.8181
Brightstocks	273.8453	10.1251
High Viscosity Index	269.6940	9.9716
Lube Distillate	123.5694	4.5688
Finished Lubricating Oils	273.8453	10.1251
<b>8. Asphalt:</b>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
RC/MC	87.3150	3.2284
Penetration	72.9239	2.6963
<b>9. Components:</b>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
Light Alkylate	165.3588	6.1140
Heavy Alkylate	148.7538	5.5000
Light Hydroformate	153.7353	5.6842
Heavy Hydroformate	136.0232	5.0293
Reformed	139.8977	5.1726
Isopentane	113.0529	4.1800
Concentrate C-6	113.0529	4.1800
<b>10. Miscellaneous:</b>	<i>Bs/m<sup>3</sup></i>	<i>U.S. \$/barrel *</i>
Varsol	153.1818	5.6637
Slack Wax	104.3075	3.8567
Carbon Black Base	84.2707	3.1158
White Spirits	98.3851	3.6377
<b>11. Topped Crude Oils:</b>		

The export value of topped crude oils shall be determined in accordance with the following formula:

$$V = \text{Bs/m}^3 \cdot 70.5716 + 0.5203 \cdot x \quad (V = \text{U.S. } \$/\text{barrel} \cdot 2.6093 + 0.0188 \cdot x)$$

where:

V = Export Value,

x = API gravity of the crude oil topped.

---

\* The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

## Venezuela

### 12. *Hydrocarbon derivatives delivered for own consumption of ships in international traffic:*

When deliveries of fuels or of any other type of product are made in national ports for own consumption of ships in international traffic, the export values shall be equivalent to the result of multiplying the corresponding export value established in this resolution by the factor 0.8500.

## III. General Dispositions

### 1. *Export Sales:*

Export sales, as deemed in this resolution, are any shipment destined to be unloaded abroad, as well as the deliveries made of fuels or any other product in the country's ports and airports for own consumption of ships and aircraft in international traffic. To that same end, the company effecting the sale shall be deemed to be the exporter of record.

The export value applicable to each shipment of crude oil shall be the one corresponding to the gravity loaded, in terms of API degrees; for hydrocarbon derivatives, the quality actually loaded shall govern which export value is applicable.

### 2. *Freight Complement:*

A freight complement is herein established, to be added to the export values, on account of geographical position and in terms of freight rates; it shall be calculated quarterly at the rate of Bs 0.01605 per cubic meter (U.S. \$0.000593 per barrel \*) for each tenth of percentage point of the Worldscale tariff, rounding out the result to the fourth complete decimal, that the simple arithmetic average of the rates published at the beginning of each month in Platt's Oilgram Price Service for AFRA Large Range 2, corresponding to the quarter prior to the quarter in which the complement will be in effect, exceeds 72.0 Worldscale.

It is understood by AFRA Large Range 2 the monthly average freight rate assessment calculated by the London Tankers Brokers Panel, of London, United Kingdom, for large tankers 2.

For the first quarter of 1972 there shall be in effect a freight complement of Bs 1.3648 per cubic meter (U.S. \$0.0505 per barrel \*) which is the result of the application of the above described method to the AFRA Large Range 2 rates published in Platt's Oilgram Service on October 5, November 3 and December 7, 1971. The Ministers of Finance and of Mines and Hydrocarbons shall set forth the freight complement rates which will be in effect during the second, third and fourth quarters of 1972.

The freight complement shall not be applied when full cargo lot deliveries of crude oil or of hydrocarbon derivatives are loaded in ships larger than 80,000 deadweight tons. Neither shall it apply in the deliveries made of hydrocarbon

\* The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

*Selected Documents — 1971*

derivatives in the country's ports and airports for own consumption of ships and aircraft in international traffic.

3. *Adjustments of Export Values:*

1. *Adjustments for quality*

Whenever retroactive adjustments are made in the export selling price of crude oil or of hydrocarbon derivatives, on account of buyer's claims duly verified, and based on contamination or other circumstances which diminish the quality of the crude oil or derivative sold, the respective export value shall be adjusted by the same amount as the price actually paid was, that is, by the same amount of the adjustment granted in accordance with the claim finally acknowledged by the National Executive.

2. *Adjustments for variations in the export volumes*

The export values and the freight complement established in this resolution shall be in effect for each exporting company, as long as the total volume of its crude oil and derivatives exports in any of the four quarters of 1972 does not exceed by more than 2 % the volume exported by the company in the same quarter of the year 1970, nor be it inferior to the export volume in the same quarter of 1970 minus 2 %, this latter volume being named, to the effects of this resolution, the "basic volume."

For those companies whose total volume of exports declined in 1968 as well as in 1969, in conformity with the official figures of the Permanent Interministerial Commission of the Ministries of Finance and of Mines and Hydrocarbons, the "basic volume" will be the corresponding to the quarterly exports of 1971 minus 3 %.

(i) Should the total volume exported in the corresponding quarter of 1972 be inferior to the "basic volume," the export values of each crude oil and each derivative will be the result of multiplying the sum of the respective export value plus the freight complement established in this resolution by the following factors:

<i>Percent decrease of "basic volume"</i>	<i>Adjustment Factor</i>
from 0.1 to 1.9	1.010
more than 1.9 to 2.9	1.015
more than 2.9 to 3.9	1.020
more than 3.9 to 4.9	1.030
more than 4.9 to 5.9	1.045
more than 5.9 to 6.9	1.060
more than 6.9 to 7.9	1.075
more than 7.9 to 8.9	1.090
more than 8.9	1.100

(ii) Should the total volume exported in the corresponding quarter of 1972 exceed the "basic volume" plus 4 %, the export values applicable to

### Venezuela

each crude oil and each derivative of the excess shall be the result of multiplying the sum of the respective export values plus the freight complement established in this resolution by the following factors:

<i>Percent</i>	<i>increase over "basic volume" + 4 %</i>	<i>Adjustment Factor</i>
	from 0.1 to 1.9	1.10
	more than 1.9 to 2.9	1.20
	more than 2.9 to 3.9	1.35
	more than 3.9 to 4.9	1.50
	more than 4.9 to 5.9	1.65
	more than 5.9 to 6.9	1.80
	more than 6.9 to 7.9	1.85
	more than 7.9 to 8.9	1.90
	more than 8.9 to 9.9	1.95
	more than 9.9 to 20.0	2.00

When the results obtained from the application of the adjustments for variations in the export volume are positive, a deduction will be applied, up to the total amount of the adjustment, for every new 0.158988 cubic meter (one barrel) of recoverable reserve added by the exporting company to the remaining recoverable reserves of crude oil as of December 31, 1971, in accordance with the figures kept by the Ministry of Mines and Hydrocarbons; this deduction will be of Bs 0.8303 per cubic meter (U.S. \$0.0307 per barrel \*), when the adjustment has been due to the exported volume being lower than the "basic volume," and of Bs 0.2768 per cubic meter (U.S. \$0.0102 per barrel \*), when the adjustment has been due to volumes in excess of the "basic volume."

On the basis of identical procedure, the aforementioned deductions will also be applied for every Bs 4.30 (U.S. \$1.00 \*) invested in secondary recovery programs or in the construction or expansion of desulphurizing plants.

Further, a deduction from the adjustments for variations in the export volumes will be made, of Bs 0.2768 per cubic meter (U.S. \$0.0102 per barrel \*), for each Bs 13.8376 per cubic meter (U.S. \$0.5116 per barrel\*) that the Exploitation Tax (royalty) reference price for heavy crude oil of up to 24.9° API increase over the posting of Bs 55.3502 per cubic meter (U.S. \$2.0465 per barrel \*).

#### *4. Suspension or Reduction of the Freight Complement and of the Adjustments for Variations in the Export Volumes:*

When found convenient to the national interest, the Ministers of Finance and of Mines and Hydrocarbons may suspend or reduce the application of the freight complement and of the adjustments for variations in the export volumes.

The U.S. dollar per barrel rates cited in this translation did not appear in the original in Spanish. They are included here for comparative purposes only, at the new exchange rate for the "oil Dollar" of Bs 4.30. There are 6.2898 barrels in a cubic meter at 60° F.

*Selected Documents — 1971*

**5. Final Income Tax Return:**

For the purposes of determining the complementary payment referred to in Article 41 of the Income Tax Law, taxpayers shall state in their final return, the income derived from export sales, specifying each crude oil identified in tenths of API degrees, and each hydrocarbon derivative classified in accordance with the nomenclature utilized in this resolution, for which the selling price was lower than the export values established in this resolution, including the increments and adjustments as herein provided for.

**6. Exports of New Hydrocarbon Derivatives:**

The Ministers of Finance and of Mines and Hydrocarbons shall establish the export value of any new hydrocarbon derivative not included in this resolution.

Pedro R. Tinoco, hijo  
Minister of Finance

Hugo Pérez la Salvia  
Minister of Mines and Hydrocarbons

SERVICE CONTRACTS AND  
ACCOUNTING GUIDE  
BLOCKS A, D AND E

Between CORPORACION VENEZOLANA DEL PETROLEO, a National Enterprise created by Executive Decree No. 260 of April 19, 1960, published in the Official Gazette No. 26234 of April 22, 1960, represented herein by Dr. Maurice Valery N., lawyer, of legal age, of this domicile, married, bearer of Identity Card No. 286580, in his capacity as Director General, designated by the Directive Council on September 7, 1970, in accordance with Paragraph (d) of Article 8 of the By-Laws governing Corporación Venezolana del Petróleo and expressly authorized for this purpose by the Directive Council of the company as evidenced by Point No. 2 in the Minutes No. 165 of May 4, 1971, by the Board of Directors as evidenced by the sole point, Minutes 574 of July 26, 1971, and by the National Executive as evidenced by Order No. 1605 of July 26, 1971, certified copies of which authorizations are attached hereto, hereinafter referred to as "CVP" as party of the first part; and as party of the other part, the Company OCCIDENTAL PETROLEUM DE VENEZUELA, S.A., hereinafter referred to as "THE CONTRACTOR," especially organized for the execution of this contract as evidenced by a document registered in the Commercial Registry of the Judicial Circuit of the Federal District and State of Miranda, under number 7 of Volume 67-A on June 7, 1971, represented herein by the Chairman of the Board of the Company, Dr. Armand Hammer, of legal age, married, domiciled in the city of Los Angeles, State

## *Venezuela*

of California, United States of America, in transit in Caracas, and identified by Passport No. J-1150293, issued by the Passport Office of the Department of State of the United States of America, on March 18, 1968, duly authorized by the Special Shareholders' Meeting of said company, held on June 18, 1971, pursuant to Clause 9 of the Articles of Incorporation of the Company, as evidenced in the Sole Point of the Minutes taken for said purpose, a certified copy of which, duly inscribed in said Commercial Registry under Number 111 of Volume 42-A, on June 29, 1971, and duly initialed, is attached hereto, it has been agreed to execute, in accordance with the Hydrocarbons Law and the Bases of Contracting approved by the Congress of the Republic, an Agreement, the terms and conditions of which are set forth in the following clauses.

### CLAUSE FIRST

#### DEFINITIONS

The definitions hereinafter set forth shall have the meaning herein assigned to them for the purposes of interpretation of this Contract, except if in this Contract there shall be expressly set forth a different meaning.

*Contract or Agreement, used indistinguishably:* Shall mean this instrument and the other documents attached hereto forming an integral part hereof.

*Block:* Shall mean the area of fifty thousand (50,000) hectares as set forth in Schedule "B" of this Contract, divided into ten (10) lots of five thousand (5,000) hectares each and which is identified in Clause Third of this Contract.

*Lot:* Shall mean each of the parts into which the Block is divided and composed of an area of five thousand (5,000) hectares.

*Parcel:* Shall mean each of the parts into which the Lot is divided and composed of an area of five hundred (500) hectares.

*Original Area.* Shall mean the Block considered as the subject of exploration as provided for in this Contract.

*Area of Exploitation:* Shall mean the area resulting from the alternate selection carried out by "THE CONTRACTOR" and "CVP," on the original area in the manner set forth in this Contract, and shall be formed by the two (2) lots selected by "THE CONTRACTOR."

*Petroleum:* Shall mean crude oil, natural asphalt, all hydrocarbons found in a liquid phase in its natural state and condensate.

*Associated Natural Gas:* Shall mean hydrocarbons found in a gaseous phase at normal conditions of separation.

*Normal Conditions of Separation:* Shall mean the characteristics of the methods employed for the separation of gas which is associated with petroleum utilizing separators accepted by the Ministry of Mines and Hydrocarbons for the industry for this purpose. The methods here mentioned are those known and accepted in the industry as separation at one or various stages, or at low temperature, but only when, in the latter case, it is produced as an inherent consequence of the method of separation and in no case as a result of the application of a process, system, mechanism or installation used for the purpose of cooling the separated gas.

**Condensate:** Shall mean the petroleum which is obtained in a liquid form at normal conditions of separation, but is characterized by being found in a gaseous state under the original conditions of the reservoir and by not being obtained by means of processes such as absorption, compression, refrigeration or by a combination of these processes.

**Free Natural Gas Reservoirs:** Shall mean the reservoirs containing natural gas exclusively. In addition there shall be considered as free gas all reservoirs in which the condensate yield is so low that re-cycling would be uneconomical.

**Exploratory Well:** Shall mean a well drilled for the purposes of exploring the Block in a location where it is expected to find production in reservoirs which, until that time, have not been proven as productive, and included within the classification of exploratory wells established by the Ministry of Mines and Hydrocarbons, the text of which is set forth in Schedule A of this Contract.

**Barrel:** Shall mean the volume of 158,984 liters at a temperature of 15,56° C (60° F) and at one (1) atmosphere of pressure.

**Minimum Exploratory Program:** Shall mean the exploratory program which "CONTRACTOR" is obligated to carry out in accordance with the provisions of Clause Sixth of this Contract.

**Party:** Shall mean "THE CONTRACTOR" or "CVP" and Parties shall mean "CONTRACTOR" and "CVP."

**Commercial Production:** Shall mean the production determined in accordance with the provisions of Clause Seventh of this Contract.

**Contractor's Net Profits:** Shall mean the amount resulting from applying to "CONTRACTOR's" net taxable income the adjustments contemplated in the Accounting Guide attached to this Contract. Net taxable income for the respective fiscal period shall be calculated in accordance with the Income Tax Law and the Regulations and the Accounting guide.

**Contractor's Net Profit per Barrel:** Shall mean the amount resulting from dividing "CONTRACTOR's" net profits by the total number of barrels of petroleum transferred by "CVP" to "CONTRACTOR" during the same fiscal period.

## CLAUSE SECOND

### PURPOSE OF THE CONTRACT

"CONTRACTOR" shall carry out with its own elements and for its exclusive account and risk, but in the name and representation of "CVP," the following activities:

- (a) Explore Block ("A," "D" or "E") totally in accordance with the Minimum Exploratory Program and the additional Exploratory Programs, if any, as provided for in Clause Sixth of this Contract.
- (b) Exploit the recoverable petroleum by means of the development and production of the Area of Exploitation; and
- (c) Transport to the point of delivery and store the petroleum produced.

Contractor, in its own name, shall undertake to place through sale in international markets the petroleum which it receives from "CVP."

*Venezuela*

*Paragraph First*

*Disposition of the Petroleum Produced*

"CONTRACTOR" shall extract the recoverable petroleum and deliver it to "CVP," after having deducted the corresponding amounts by application of the provisions of the following Paragraph. "CVP" in turn shall transfer to "CONTRACTOR" ninety percent (90 %) of said amount of petroleum received for the sale thereof in international markets. "CVP" shall retain ten percent (10 %) of the petroleum received and shall reimburse "CONTRACTOR" in the same proportion for the corresponding costs of production up to the point of delivery.

The cost of production shall be constituted, among others, by the following items:

1. Amortization and Depreciation of the investments made.
2. Taxes, contributions and other fiscal obligations set forth in the Law of Hydrocarbons and such other taxes and contributions, including municipal taxes, as are paid with respect to the activities of "CONTRACTOR" prior to the disposition of the petroleum produced.
3. Expenses of Operation and Maintenance.
4. General and Administrative Expenses.

These costs shall be determined on the basis of the procedure set forth in the attached Accounting Guide, which, executed by both Parties, shall form an integral part of this Contract.

*Paragraph Second*

*Use of Petroleum in Operations and Payment in kind of the Exploitation Tax*

"CONTRACTOR" may utilize in its operations, such as well stimulation, the petroleum which may be indispensable therefor. The Supervisory Committee may regulate said utilization. The amounts of petroleum so utilized shall be deducted from the total production before delivery to "CVP."

The amounts delivered in kind by "CONTRACTOR" to the National Executive for the exploitation tax, in accordance with the provisions of Clause Nineteenth hereof, if any, shall likewise be deducted from total production before delivery thereof by "CONTRACTOR" to "CVP."

*Paragraph Third*

*Point of Delivery of the Petroleum to the Contractor*

"CONTRACTOR" shall deliver the Petroleum to "CVP" at the exit flange connecting the port terminal hose with the exit flange of the tanker and at this point "CVP" shall transfer to "CONTRACTOR" ninety percent (90 %) of the petroleum received in consideration for the services rendered by the latter under this Contract, and shall retain the remaining ten percent (10 %). Nevertheless, the losses occurring before delivery, and the cost of transportation, storage and loading, shall be divided proportionately between the two Parties on the basis of the percentage of participation in the petroleum produced.

*Paragraph Fourth*

*Procedure for withdrawing the Petroleum produced*

The Parties agree to make timely withdrawal of the petroleum which corresponds to them in accordance with the provisions of this Clause and pursuant to the program which for said purpose shall be agreed upon by the Supervisory Committee. When one of the parties shall not make a timely withdrawal of the volume of petroleum corresponding to it, the other party shall have the option to withdraw said petroleum if the circumstances established by the Supervisory Committee shall occur. The Supervisory Committee shall fix the operating and accounting conditions and procedures, as well as the corresponding storage in order to make the adjustments which may be required.

*Paragraph Fifth*

*Disposition of the Natural Gas Produced*

*Associated Natural Gas*

“CONTRACTOR” may utilize the gas produced in association with petroleum and which may be required for its operations of production or programs of conservation, delivering to “CVP” without any cost at the exit of the separators all excess gas. “CVP” may extract at its own expense the condensable liquids from the associated gas, including the gas which is to be utilized by “CONTRACTOR” for the above indicated purposes. In the latter case, “CVP” shall make the extraction of the liquids without requiring “CONTRACTOR” to undertake any expense for this sole purpose and without affecting, in an adverse manner, the programs of production and costs of secondary recovery as shall have been approved by the Supervisory Committee.

“CVP” shall receive the Associated Natural Gas and shall dispose of same in accordance with the legal and regulatory provisions then in effect and those which may be promulgated by the competent authorities.

*Condensate*

The condensate reservoirs for the exploitation thereof must be submitted to re-cycling. Condensate reservoirs shall be deemed to be free gas when the production of liquids would be uneconomic.

*Free Natural Gas*

“CONTRACTOR,” by virtue of this Contract, shall have no right to exploit the free gas reservoirs which may be discovered.

*Paragraph Sixth*

*Special Agreements for the Utilization of Gas*

“CVP,” when it deems convenient, may execute with “CONTRACTOR” or with third parties, special agreements for the utilization of associated or free natural gas without prejudice to the legal provisions governing such matters. If “CVP” shall decide to execute special agreements for the utilization of associated or free natural

### *Venezuela*

gas, and "CONTRACTOR" shall have made an offer for this purpose, "CVP" shall grant preferential consideration to "CONTRACTOR" provided that the terms and conditions offered by the latter are equal or superior to those of other offers received.

### CLAUSE THIRD

#### IDENTIFICATION OF BLOCK "A"

The area subject to this Contract shall be constituted by a Block known as "A" with an extension of fifty thousand (50,000) hectares consisting of ten (10) lots of five thousand (5,000) hectares each, subdivided into parcels of five hundred (500) hectares each. Said Block "A" is located in the South of Lake Maracaibo, Zulia State, Venezuela, and is identified as follows: Starting from a point which has as coordinates S-116.976,98 and O-11,783.25, 15,000 mts. are measured due east until arriving at a point which has as coordinates S-116,976.98 and E-3.216,75 from which point are measured 5,000 mts. due north until arriving at a point the coordinates of which are S-111.976,98 and E-3.216,75; and from here, 16,925.37 mts. are measured due east until arriving at a point which has as coordinates S-111,976.98 and E-20,142.12; from here are measured 5,000 mts. due north until arriving at a point the coordinates of which are S-106.976,98 and E-20,142.12; from here 15,000 mts. are measured due east until arriving at a point the coordinates of which are S-106.976,98 and E-35,142,12; from here 5,000 mts. are measured due south until arriving at a point which has as coordinates S-111-976,98 and E-35.142,12; from here 3.074,63 mts. are measured due east until arriving at a point the coordinates of which are S-111-976,98 and E-38.216,75; from here 10,000 mts. are measured due south until arriving at a point which has as coordinates S-121.976,98 and E-35.142,12; from here 3.074,63 mts. are measured due east until arriving at a point the coordinates of which are S-121.976,98 and O-11,783.25; from here 5,000 mts. are measured due south until arriving at a point which has as coordinates S-121.976,98 and O-11,783.25 which is the vertex of the starting block for "Block A." The origin of the coordinates: Maracaibo Cathedral O-0.

The form, bearing and location of the lots which form the Block are indicated in Schedule "B" to this Contract.

#### *Identification of Block "D":*

The area subject to this Contract shall be constituted by a Block known as "D" with an extension of fifty thousand (50,000) hectares consisting of ten (10) lots of five thousand (5,000) hectares each, subdivided into parcels of five hundred (500) hectares each. Said Block "D" is located in the South of Lake Maracaibo, Zulia State, Venezuela, and is identified as follows: Starting from a point which has as coordinates S-131,976.98 and E-716.75, 20,000 mts. are measured due east until arriving at a point which has as coordinates S-131,976.98 and E-20,716.75 from which point are measured 10,000 mts. due south until arriving at a point the coordinates of which are S-141,976.98 and E-20,716.76; and from here, 10,000 mts. are measured due east until arriving at a point which has as coordinates S-141,976.98 and E-30,716.75; from

*Selected Documents — 1971*

here are measured 10,000 mts. due south until arriving at a point the coordinates of which are S-151,976.98 and E-30,716.75; from here 10,000 mts. are measured due west until arriving at a point the coordinates of which are S-151,976.90 and E-20,716.75; from here 10,000 mts. are measured due south until arriving at a point which has as coordinates S-161,976.98 and E-20,716.75; from here 10,000 mts. are measured due west until arriving at a point the coordinates of which are S-161,976.98 and E-10,716.75; from here 20,000 mts. are measured due north until arriving at a point which has as coordinates S-141,976.98 and E-10,716.75; from here 10,000 mts. are measured due west until arriving at a point the coordinates of which are S-141,976.98 and E-716.75; from here 10,000 mts. are measured due north until arriving at a point which has as coordinates S-131,976.98 and E-716.75 which is the vertex of the starting point for Block D. The origin of the coordinates: Maracaibo Cathedral O-0.

The form, bearing and location of the lots which form the Block are indicated in Schedule "B" to this Contract.

*Identification of Block "E":*

The area subject to this Contract shall be constituted by a Block known as "E" with an extension of fifty thousand (50,000) hectares consisting of ten (10) lots of five thousand (5,000) hectares each, subdivided into parcels of five hundred (500) hectares each. Said Block "E" is located in the South of Lake Maracaibo, Zulia State, Venezuela, and is identified as follows: Starting from a point which has as coordinates S-151,976.98 and O-19,283.25, 10,000 mts. are measured due east until arriving at a point which has as coordinates S-151,976.98 and O-9,283.25 from which point are measured 10,000 mts. due north until arriving at a point the coordinates of which are S-141,976.98 and O-9,283.25; and from here, 20,000 mts. are measured due east until arriving at a point which has as coordinates S-141,976.98 and E-10,716.75; from here are measured 20,000 mts. due south until arriving at a point the coordinates of which are S-161,976.98 and E-10,716.75; from here 30,000 mts. are measured due west until arriving at a point the coordinates of which are S-161,976.98 and O-19,283.25; from here 10,000 mts. are measured due north until arriving at a point which has as coordinates S-151,976.98 and O-19,283.25, which is the vertex of the starting point for Block "E." The origin of the coordinates: Maracaibo Cathedral O-0.

The form, bearing and location of the lots which form the Block are indicated in Schedule "B" to this Contract.

**CLAUSE FOURTH**

**TERM OF CONTRACT**

This Contract shall include a maximum exploratory period of three (3) years commencing on the date of execution hereof, and a period of exploitation of twenty (20) years commencing on the date of termination of the exploratory period or on the date on which earlier exploitation during the exploratory period shall commence, in accordance with the provisions of Paragraph Fourth of Clause Sixth of this Contract.

*Venezuela*

**CLAUSE FIFTH**

**EXPLORATORY PHASE**

"CONTRACTOR" shall, during the first three (3) years of this Contract, carry out all the activities set forth in Clause Sixth relating to the exploration of the area included in the contracted Block, in search for petroleum through geological and geophysical surveys, drilling of wells and any other operations which are consistent with the practices and techniques accepted by the petroleum industry for exploration, for the purpose of completely exploring the area and evaluating the existing structural or stratigraphic traps.

**CLAUSE SIXTH**

**MINIMUM EXPLORATORY PROGRAM**

The Exploratory Program which "CONTRACTOR" is obligated to carry out shall be composed of:

**FOR "BLOCK A"**

- (a) A seismic survey of no less than 378 kilometers of seismic lines; and
- (b) The drilling of three (3) exploratory wells. Two (2) of these wells shall reach depths which permit an evaluation of the Eocene sands and penetrate the Guasare formation in the Paleocene. The depth of the third well must be such as to permit reaching one of the following objectives:
  - (a) to arrive at a total depth of 16,500 feet; or
  - (b) to arrive at a depth sufficient to penetrate the Guasare formation; or
  - (c) to arrive at a depth which, in the opinion of "CONTRACTOR" shall make additional drilling operations impractical, or which make them inadvisable because of the adverse geological or mechanical conditions.

**FOR BLOCK "D"**

- (a) A seismic survey of 218 kilometers of seismic lines; and
- (b) The drilling of four (4) exploratory wells. Three (3) of those wells shall reach depths which permit an evaluation of the Eocene sands and penetrate the Guasare formation in the Paleocene. The depth of the fourth well must be such as to permit reaching one of the following objectives:
  - (a) to arrive at a total depth of 17,000 feet; or
  - (b) to arrive at a depth sufficient to penetrate the Guasare formation; or
  - (c) to arrive at a depth which, in the opinion of "CONTRACTOR," shall make additional drilling operations impractical, or which make them inadvisable because of the adverse geological or mechanical conditions.

*Selected Documents — 1971*

FOR BLOCK "E"

- (a) A seismic survey of 304 kilometers of seismic lines; and
- (b) The drilling of seven (7) exploratory wells. These wells shall reach depths which permit an evaluation of the Eocene sands and penetrate the Guasare formation in the Paleocene.

FOR BLOCKS "A," "D" and "E"

For the carrying out of the Minimum Exploratory Program, the Parties shall proceed in the following manner:

1. The project of the seismic survey and the technical characteristics thereof, approved by the Parties prior to the execution of this Contract, is attached hereto as Schedule "C," forming an integral part hereof.
2. "CONTRACTOR" shall supply progressively to "CVP" the basic data which shall be received from said survey. Within thirty (30) days after having received all of the basic data, the Coordinating Committee shall hold a meeting in which each party shall present a map with the prospects and the location recommended for the wells to be drilled. If both Parties shall agree on locating a well within the same structure, there shall be deemed to be an agreement on the location of said well.
3. "CONTRACTOR" shall begin as soon as possible with the perforation of the wells on the locations agreed upon by the Coordinating Committee at said meeting.
4. In the event of disagreement in respect to the location of any of the wells to be drilled, each Party shall review its interpretation based upon the data contributed by the other Party and the data supplied from the wells which have already been drilled or which are in the process of being drilled.
5. At the time when the drilling of the last well agreed upon shall begin, the Coordinating Committee shall hold another meeting for the purpose of approving the location of the wells which have not yet been drilled.
6. In the event of not arriving at an agreement concerning the location of one or more wells yet to be drilled, "CONTRACTOR" shall select the first location. Thereafter, "CVP" shall select the following location, and the same procedure shall be followed successively until the drilling of the number of wells provided for in the Minimum Exploratory Program for the Block shall be terminated.

Each of the Parties must make the selection as hereinabove provided with sufficient anticipation to avoid interruptions in the program for the drilling of wells and increases in cost.

"CONTRACTOR" shall proceed with the bidding of the work of the seismic survey and of the drilling and completion of wells, and to the selection of companies which will carry out said work based upon the conditions which "CONTRACTOR" considers applicable. The same procedure shall be followed for any exploratory program in addition to the minimum hereinabove provided for.

### *Venezuela*

If "CONTRACTOR" shall decide to carry out said work directly, it must do so on a competitive basis, and for such purpose it shall previously solicit bids from specialized companies.

With the results of the bidding or quotations, "CONTRACTOR" shall prepare a detailed budget for the exploratory program adding to the cost of the work bid or quoted, the direct and indirect costs which are determined in the attached Accounting Guide. This detailed budget shall be submitted for the approval of the Coordinating Committee not less than thirty (30) days prior to the date upon which it is contemplated that operations shall commence.

#### *Paragraph First*

##### *Non-Continuation of Minimum Exploratory Program*

After having received authorization from "CVP," "CONTRACTOR" shall be entitled to discontinue the minimum exploratory program, if during the execution thereof it considers that the conditions of the subsoil in the area do not permit the expectation of a reasonable opportunity to discover accumulations of petroleum in commercial quantities, in which case "CONTRACTOR" shall pay to "CVP" fifty percent (50 %) of the investments necessary to complete the minimum exploratory program and this Contract shall be terminated. Nevertheless, after "CONTRACTOR" shall have discovered petroleum in commercial quantities and if the information obtained shall indicate that it is not advisable to continue with the Minimum Exploratory Program, "CONTRACTOR," after having received the approval of "CVP," may discontinue said program, in which case "CONTRACTOR" shall pay to "CVP" the sum necessary to complete said program based upon the real cost of the work which has already been performed, but the Contract shall not be terminated.

The calculation of the investments hereinabove described shall be based upon the budget which for said purpose shall have been approved by the Coordinating Committee and which shall be adjusted based upon the real cost of surveys already performed and of wells already drilled, making the necessary reductions from said real costs in order to take into account any extraordinary expenses incurred as a consequence of abnormal conditions in the judgment of the Coordinating Committee. The investments so calculated shall be utilized in the determination of the above-mentioned indemnity which must be received by "CVP" as a result of the non-continuation of the minimum exploratory program.

#### *Paragraph Second*

##### *Commencement and Continuity of Operations*

"CONTRACTOR" must begin the minimum exploratory program within six (6) months following the execution of this Contract, and must perform it in an uninterrupted manner. The period during which "CONTRACTOR" shall suspend field operations to carry out the work of processing and interpretation of data or studies, shall not be deemed to be an interruption of the period, provided it is a reasonable period of time in the judgment of the Coordinating Committee. The time taken for the approval of permit or authorizations by competent authorities in respect of the

operations or in waiting for decisions by the Coordinating Committee, as well as any interruption due to events which are not caused directly or indirectly by acts or omission of "CONTRACTOR" respecting which "CONTRACTOR" shall have used all reasonable care to prevent, avoid or remedy the damaging consequences thereof, shall likewise not be deemed an interruption. Any other suspension of the minimum exploratory program which is not included within the matters expressed hereinabove in this Paragraph or which is not due to fortuitous circumstances or force majeure shall be considered as an interruption of said Program.

*Paragraph Third*

*Penalty for Failure to Begin the Minimum Exploratory Program or for Interruption thereof*

If "CONTRACTOR" shall not have begun the Minimum Exploratory Program within the term hereinabove set forth, or if said program shall be interrupted for a period of thirty (30) consecutive days, "CVP" shall have the right to rescind this Contract at the end of the mentioned terms and in both cases "CONTRACTOR" shall pay as compensation to "CVP" the amount of the investments necessary to carry out, or complete as the case may be, the Minimum Exploratory Program. If "CONTRACTOR" shall not have initiated the Minimum Exploratory Program within the term hereinabove set forth, the amount of investments hereinabove described shall be determined on the basis of the budget which for said purpose shall have been approved by the Coordinating Committee.

If the operations are interrupted, the amount of the indemnity shall be calculated on the basis of the same budget adjusted to the real cost of the work which has already been performed.

*Paragraph Fourth*

*Advanced Selection and Exploitation*

- (a) "CONTRACTOR" may at any time during the exploratory period, if it has determined commercial production in any of the lots composing the Block, select its first lot for exploitation, and in this manner the advanced exploitation shall begin and the twenty (20) year exploitation period shall commence on the date upon which the selection shall be made. "CONTRACTOR" must continue the minimum exploratory program as set forth in Clause Sixth of this Agreement for the Block.
- (b) If "CONTRACTOR" shall not have made the selection hereinabove described and, having completed the Minimum Exploratory Program sufficiently in advance of the end of the three (3) year exploratory period, and if commercial production shall have been determined, advance alternate selection in accordance with the procedure set forth in Paragraph First of Clause Eighth of this Contract shall proceed, and in this manner advance exploitation shall begin and the twenty (20) year exploitation period shall commence on the date upon which "CONTRACTOR" shall select its first lot.

*Venezuela*

*Paragraph Fifth*

*Additional Programs*

"CONTRACTOR" may carry out during the exploratory period additional exploration programs in order to evaluate other traps in the Contracted Block, as well as programs for the drilling of outpost wells and detailed seismic surveys for the purpose of obtaining a more precise delineation of the discovered reservoirs. Such additional programs must be considered and approved by the Coordinating Committee.

*Paragraph Sixth*

*Termination of the Contract at the End of the Exploratory Period and Penalty in the Event of Non-compliance with the Minimum Exploratory Program*

If at the end of the three (3) year exploratory period, "CONTRACTOR" shall not have determined commercial production, this Contract shall be rescinded. If said term shall have elapsed and "CONTRACTOR" shall not have fully performed the Minimum Exploratory Program, "CONTRACTOR" shall pay to "CVP" the sum necessary to terminate said program based upon the real cost of the work already carried out, the calculation of which shall be made in accordance with the provisions of Paragraph First of this Clause; and without prejudice to the right of "CVP" to rescind this Contract.

*Paragraph Seventh*

*Production Testing*

When "CONTRACTOR" during the exploratory phase carries out production tests on the wells, without prejudice to the provisions of Paragraph Second of Clause Second of this Contract, "CVP" shall withdraw, for its exclusive account and risk, the production in such way as not to interrupt the said testing.

**CLAUSE SEVENTH**

**DETERMINATION OF COMMERCIAL PRODUCTION**

"CONTRACTOR" must determine if it has discovered petroleum in commercial quantities, at any time and in any lot, during the exploratory period.

*Paragraph First*

*When it shall have been determined:*

Commercial production shall be determined when the estimated recoverable reserves in the area of exploitation to be selected by "CONTRACTOR" shall be such as to reasonably permit the carrying out of an economic projection of the exploitation program.

*Paragraph Second*

*Method of Determination*

In order to carry out said economic projection, income from sales shall be calculated at applicable realization prices. From the year to year income there shall be deducted

the cost of exploration, development, exploitation, taxes, participations and other applicable expenses, in accordance with the Accounting Guide as described in Clause Second of this Contract. To the series of net profits so obtained, there shall be added the corresponding annual depreciation and amortization. These series of cash flows shall be adjusted against the investments made, year by year, in order to obtain a series of Adjusted Cash Flows, to which shall be applied a discount rate of not less than 10 % nor more than 15 % to be proposed by "CONTRACTOR", unless the Parties agree upon another reasonable discount rate, from the moment of estimating the first income from sales of petroleum from the area. If the result of the algebraic sum of the discounted values were zero or a positive amount, commercial production shall be deemed to have been determined.

## CLAUSE EIGHTH

### ALTERNATE SELECTION OF THE AREA OF EXPLOITATION

At the end of the three (3) year exploratory period, and having completed the minimum exploratory program, and providing that "CONTRACTOR" shall have determined commercial production during said period in one or more of the lots forming the explored Block, the choice of the exploitation area shall proceed by means of the selection of lots in alternating form, until reaching an area of no greater than twenty percent (20 %) of the Block. For such purpose, "CONTRACTOR" must select its first lot within seven (7) days following the end of the exploratory period. Within a term of seven (7) calendar days, commencing on the date on which "CONTRACTOR" shall have selected its first lot, "CVP" must select another lot and then "CONTRACTOR" must select a second lot within seven (7) days following the date upon which "CVP" shall have made the selection of its lot.

#### *Paragraph First*

##### *Earlier Alternate Selection*

In the event of having completed the Minimum Exploratory Program and the Additional exploratory program, if any, within the three (3) years, and provided that "CONTRACTOR" shall have determined commercial production, the alternate selection shall proceed in the following manner:

"CONTRACTOR" may select its first lot within three (3) months following the termination or abandonment of the last well included in the Minimum Exploratory Program or in the Additional Exploratory Program, if any. "CVP" shall select its lot within seven (7) days following the date upon which "CONTRACTOR" shall have selected its first lot, and "CONTRACTOR" shall select its second lot within seven (7) days following the date upon which "CVP" shall have made the selection of its lot.

#### *Paragraph Second*

##### *Alternate Selection of Second and Third Lots*

In the event that "CONTRACTOR" shall have made the selection of the lot referred to in Subparagraph (a) of Paragraph Fourth of Clause Sixth of this Contract, "CVP"

*Venezuela*

shall make the selection of its lot within seven (7) days after having received notice in writing to such effect by "CONTRACTOR" at any time after the end of the three (3) months following the termination or abandonment of the last well contemplated in the Minimum Exploratory Program or in the Additional Exploratory Program, if any, and up to seven (7) days following the end of the three (3) year exploratory period, and "CONTRACTOR" shall select its second lot within seven (7) days following the date on which "CVP" shall have made the selection of its lot.

*Paragraph Third*

*Term for Carrying Out Alternate Selection*

It is understood that the terms established in this Clause must be carried out in any event within the three (3) year exploratory period and twenty-one (21) days immediately thereafter.

The area of exploitation of the Contract shall be formed by the two (2) lots selected by "CONTRACTOR."

*Paragraph Fourth*

*Reduction of the Area of Exploitation*

"CONTRACTOR," after having received the approval of "CVP," may reduce the area of exploitation by means of the exclusion of one or more of the parcels of five hundred (500) hectares in which each one of the two (2) selected lots are sub-divided. As a result thereof, the corresponding adjustments shall be made to the plans and, commencing on the date of approval by the Ministry of Mines and Hydrocarbons, the provisions of this Contract shall be no longer applicable to the affected area.

**CLAUSE NINTH**

**EXPLOITATION PHASE**

After "CONTRACTOR" has made its selection and exploitation period has begun in accordance with the provisions of Clause Fourth and Paragraph Fourth of Clause Sixth of this Contract, "CONTRACTOR" shall begin the activities of exploitation of the petroleum discovered in accordance with the development programs which for such purpose shall be agreed upon by the Supervisory Committee, and after having constructed the required production installations shall commence the production in accordance with the annual production program which shall be agreed upon by the Supervisory Committee, taking into consideration the characteristics of the reservoirs, the applicable norms of conservation, the recoverable reserves, the capacity of the existing production facilities and the market conditions. All of said activities shall be carried out by "CONTRACTOR" in the most economical and efficient manner in accordance with the usual practices in the petroleum industry.

CLAUSE TENTH

OPERATIVE PARTICIPATION OF "CVP"

In the elaboration, performance and supervision of plans, programs and budgets required for the Development and Production, "CVP" shall have an extensive operative participation, which shall be exercised through the functioning of committees and sub-committees composed equally of representatives of "CVP" and "CONTRACTOR."

*Paragraph First*

*Committees and Sub-Committees*

The Coordinating and High-Level Supervisory Committee and the Technical, Marketing of Petroleum and Derivative Products, Administrative-Financial and Legal Sub-Committees shall be created which will have the powers established in this Contract. The sub-committees shall exercise their duties during the exploitation phase. The decisions of the Coordinating Committee and of the High-Level Supervisory Committee shall be binding upon the "CONTRACTOR," as well as "CVP."

*Paragraph Second*

*Coordinating Committee*

*Composition:* The Coordinating Committee shall exercise its duties during the exploratory phase and shall be composed of two representatives of "CVP" and two of "CONTRACTOR," together with their respective alternates.

*First Meeting:* The Coordinating Committee shall meet for the first time in Caracas within thirty days following the date of execution of this Contract.

*Duties:* The Coordinating Committee shall have, among others, the following duties:

1. Approve the detailed budget of the Minimum Exploratory Program in accordance with the provisions of Clause Sixth.
2. Coordinate and supervise the progress and performance of the exploratory program.
3. Approve the location of the wells to be drilled included in the Minimum Exploratory Program in accordance with the standards set forth for this purpose in Clause Sixth hereof.
4. Consider, approve or amend the additional exploration programs and outpost programs presented by "CONTRACTOR."
5. Take cognizance of the pertinent data, and the evaluation and analysis presented by "CONTRACTOR" when the latter manifests that it has determined commercial production and decide if commercial production has really been determined and if the exploitation phase should be passed into.

*Work or Advisory Groups:* The Coordinating Committee may utilize the work or advisory groups which it considers convenient in order to carry out the technical analysis and evaluation of the programs which are approved, and shall assign to said groups the duties and powers which it judges appropriate for the performance of its mission.

## *Venezuela*

The decisions taken by these groups shall have the character of recommendations and shall not obligate the parties.

### *Paragraph Third*

#### *High-Level Supervisory Committee*

**Composition:** The Supervisory Committee shall exercise its duties during the exploitation phase and shall be composed of two representatives of "CVP" and two of "CONTRACTOR," together with their respective alternates.

**Annual Meetings:** The Supervisory Committee shall meet in Caracas, or in any other place which, for such purpose, shall be agreed upon by the Parties, no later than the seventh of July of each year, for the purpose of initiating the consideration of the approval or amendment of the Annual Operating Program and the provisional expense, capital and finance budgets corresponding to the following calendar year.

**First Meeting:** The Supervisory Committee shall hold its first meeting in Caracas within fifteen (15) days following the date of selection by "CONTRACTOR" of the first lot for the purpose of initiating the consideration of the approval or amendment of the Annual Operating Program and the expense, capital and finance budgets of the current calendar year, as well as those corresponding to the following calendar year in the event that the selection of the first lot occurs subsequent to June 30 of the year of the selection.

**Duties:** The Supervisory Committee shall have, among others, the following duties:

1. Assign to the Sub-Committees the powers and duties which it may deem necessary.
2. Resolve any disagreement which may arise within the Sub-Committee.
3. Review, approve, modify or disapprove the plans, programs and budgets of exploration, other than those which are within the competency of the Coordinating Committee; and the plans, programs and budgets of exploitation, production, marketing and any others which may be submitted for consideration by the respective Sub-Committees.
4. Review semi-annually, or when it deems necessary, said plans, programs, and budgets in order to make the adjustments and modifications which may be pertinent, as well as reviewing the execution of said plans, programs and budgets directly or through the respective Sub-Committees.
5. Approve "CONTRACTOR's" Annual Operating Program which shall include the annual production program and the expense, capital and financial budget. The annual production program shall include, among other elements, the level of annual production which shall be determined by taking into account the remaining reserves approved by the Ministry of Mines and Hydrocarbons, the characteristics of the reservoirs, the applicable norms of conservation, the capacity of the existing production facilities and the conditions of the market.
6. Review semi-annually the annual production program, and approve the appropriate modifications.
7. Approve semi-annually the hydrocarbon reserves submitted to it by the Technical Sub-Committee.

8. Take cognizance annually of the Financial Reports of the "CONTRACTOR."
9. Recommend the putting into practice of the necessary methods of security for the protection of persons and installations.
10. Approve the secondary recovery programs which may be necessary for the optimum recovery of crude from the exploited reservoirs based upon the Annual Operating Program.
11. Approve the general conditions for the awarding of contracts in bidding procedures, as well as the operating agreements and sub-contracts.
12. Approve Dry-Hole agreements with other companies.
13. Approve, in accordance with the provisions of Paragraph Fourth of Clause Second, the conditions and the accounting and operating procedures for the withdrawal by the Parties when one of the Parties shall not have made a timely withdrawal of the volume of petroleum which corresponds to it in accordance with this Contract, as well as the program for storage and loading which may be established for said purpose.
14. Recommend the use of "CONTRACTOR's" equipment and equipment contracted from third parties and the models of reports for the adequate control of operations.

*Paragraph Fourth*

*Sub-Committees*

*Technical Sub-Committee*

*Composition:* The Technical Sub-Committee shall be composed of three representatives of "CVP" and three of "CONTRACTOR," together with their respective alternates.

*Duties:* In addition to the powers and duties assigned to it by the Supervisory Committee, the Technical Committee shall have the following duties:

1. Consider, amend or approve the programs and budgets of development, exploitation and production and supervise the performance thereof.
2. Approve the location of exploration, development and outpost wells.
3. Approve the programs for drilling, completion, reconditioning and abandonment of wells.
4. Recommend the general conditions for bidding procedures for the drilling of exploration, outpost or development wells, or for the work of reconditioning and abandonment.
5. Approve the use of "CONTRACTOR's" own equipment or equipment which may be contracted for in the operations of drilling, reconditioning and abandonment.
6. Approve the maximum efficient production rates per well and per reservoir.
7. Approve the programs and methods of well testing.
8. Approve the projects for the installations of production, treatment, gathering, storage and transportation of crude included in the Annual Operating Program.
9. Approve the projects of secondary recovery.
10. Consider at least twice per year the applicable factors for the estimate of hydrocarbon reserves.

### *Venezuela*

11. Approve the methods of most efficient artificial lifting for the contracted area.
12. Approve the programs for the measurement of bottom pressure.
13. Approve the models for the necessary reports to carry out the adequate control of the operations.

#### *Marketing of Petroleum and By-Products Sub-Committee*

**Composition:** The Marketing Sub-Committee shall be composed of two representatives of "CVP" and two of "CONTRACTOR" together with their respective alternates.

**First Meeting:** The first meeting of the Marketing of Petroleum and By-Products Sub-Committee shall be held within thirty (30) days following the selection of the first lot by "CONTRACTOR," and at said meeting the date upon which "CONTRACTOR" shall present a general report on its markets and export prices shall be determined.

**Duties:** In addition to the powers and duties which may be assigned to it by the Supervisory Committee, the Marketing of Petroleum and Derivative By-Products Sub-Committee shall have the following fundamental duties:

1. Consider, amend or approve the marketing programs, taking into account for the fixing of sales prices, the current commercial practices, fiscal laws, and the norms and recommendations of the Coordinating Committee for the Conservation and Commerce of Hydrocarbons, and supervise the performance of said programs.
2. Analyze, together with the Technical Sub-Committee, the production program presented annually by "CONTRACTOR," with special emphasis on export prices and the markets for the crude produced.
3. Analyze at the appropriate time, the information presented by "CONTRACTOR" referring to the offers of sales for contracts of short, medium and long term, with the indication of prices, volumes and destination of the exports.
4. Analyze and verify at the appropriate time, the reports presented by "CONTRACTOR" concerning sales already made.
5. Recommend the regulations for spot sales.

#### *Administrative-Financial Sub-Committee*

**Composition:** The Administrative-Financial Sub-Committee shall be composed of two representatives of "CVP" and two of "CONTRACTOR," together with their respective alternates.

**Duties:** In addition to the powers and duties assigned to it by the Supervisory Committee, the Administrative-Financial Sub-Committee shall have the following fundamental duties:

1. Consider, amend or approve the administrative programs and supervise the performance thereof.
2. Analyze the preparation and structuring of the financial budget, which shall contain the uses and needs of funds of the "CONTRACTOR" to cover the programs, as well as the additional requirements which may arise as a result of modifications made to said programs during the performance of the budget.

*Selected Documents — 1971*

3. Recommend and coordinate the preparation and structuring of a system of programming and budgeting capable of permitting an efficient control of each of the programs and budgets approved by the Supervisory Committee. This system must be structured in such manner to produce continuous and comparative information concerning the activities of the "CONTRACTOR" which may serve as a basis for the taking of decisions by the Supervisory Committee.
4. Supervise and verify the cost of production of petroleum retained by "CVP" in connection with the amount invoiced by "CONTRACTOR," and of the petroleum transferred to "CONTRACTOR" by "CVP," in order to determine the net profit per barrel of said petroleum and to approve the elements of said cost not set forth in the Accounting Guide.
5. Make the necessary suggestions so that the systems, methods and procedures to be utilized by "CONTRACTOR" may be recommended.
6. Receive from "CONTRACTOR" all of the economic and financial information presented by the companies participating in bidding procedures in order to know the economic and financial backing of the enterprise selected by "CONTRACTOR."

*Legal Sub-Committee*

*Composition:* The Legal Sub-Committee shall be composed of a representative of "CVP" and another of "CONTRACTOR," together with their respective alternates.

*Duties:* In addition to the powers and duties assigned to it by the Supervisory Committee, the Legal Sub-Committee shall have the following duty:

Advise the Committees and Sub-Committees on legal matters.

*Provisions Common to the Committees and Sub-Committees*

1. *Designation of Representatives:* Each Party shall notify the other Party in writing, the names of the persons designated as Principal representatives, together with the names of their alternates. Any of the Parties shall have the right at any time to substitute its Principal representatives or alternates by giving notice to the other Party in writing.
2. *Observers and Advisors:* Subject to notification to the other Party, a Party may have observers or advisors attend the meeting of Committees and Sub-Committees.
3. *Meetings:* The Committees and Sub-Committees shall meet monthly in Caracas or in any other place which the Parties may agree upon for such purpose, and special meetings may be called whenever requested by either of the Parties.  
The ordinary or special meetings of the Committees and Sub-Committees shall be called by notice given five (5) working days prior to the date of the meeting, except in the case of emergencies, and notice shall include the corresponding agenda.
4. *Decisions of the Sub-Committees:* The decisions of the Sub-Committees must be submitted for consideration by the Supervisory Committee for which it shall have the character of recommendations, but they shall be binding upon the parties if not modified by said Committee.

*Venezuela*

5. *Quorum:* In order for a quorum to exist in the Committees and Sub-Committees, there must be present at least one principal or alternate representative of each Party. All the decisions of the Committees shall be taken by unanimity. If no quorum shall be present, a second meeting shall be called three (3) working days afterwards; if at the second meeting no quorum can be obtained, the Director General, or the President of the Party not attending, shall be advised that a third meeting shall be held five (5) working days thereafter in order to adopt the appropriate measures to achieve the required quorum, and if said quorum is not achieved within the following five (5) working days, a disagreement shall be deemed to have occurred, and the procedure established for the solution of disagreement shall be put into effect.
6. *Solution of Disagreements in the Committees:* In the event of not reaching an agreement within the Coordinating or Supervisory Committee, and unless another procedure shall be set forth in this Contract, the following procedure shall be followed:
  - (a) The meeting shall be suspended in order to allow the members to consult with the Party which they represent, and another meeting shall be held within the week immediately thereafter.
  - (b) If the members of the Committee shall not reach an agreement at said meeting, the matter shall be taken up by the Parties at the level of special representatives designated by the Director General of "CVP" and the President of "CONTRACTOR" for the purpose of reaching a solution within a term of no greater than one week.
  - (c) If said period shall be terminated without having reached an agreement between said representatives, the matter shall be submitted for the consideration of the Director General of "CVP" and the President of "CONTRACTOR," who shall resolve said matter in the shortest term possible. The Director General of "CVP" and the President of "CONTRACTOR," if they consider it advisable, may jointly consult with experts on the matter.
  - (d) The Director General of "CVP" and the President of "CONTRACTOR" shall, for the solution of the respective disagreement, take into account the criteria which must be the basis for the preparation and performance of plans, programs and budgets in the following manner:
    - (i) In respect of the additional exploration program, there shall be taken into account the purpose of the contract indicated in Clause Second, the provisions of Paragraph Fifth of Clause Sixth and the geological interpretation arising from the activities already performed.
    - (ii) In respect to the plans, programs and budgets provided for in Paragraphs Third and Fifth of Clause Tenth, there shall be taken into account the profitability of the investments in the manner established in Clause Seventh, the purpose of this Contract indicated in Clause Second, Clause Ninth, and Sub-Paragraph Two of Paragraph Five of Clause Tenth.
  - (e) The Director General of "CVP" and the President of "CONTRACTOR," by no later than November 30th of each year, and taking into account the criteria

*Selected Documents — 1971*

indicated in the immediately preceding sub-paragraph, must agree upon the form in which operations shall continue. Nevertheless, if as of said date no agreement shall have been reached, "CONTRACTOR" shall proceed with the existing level of production or the level of production proposed by "CONTRACTOR" whichever shall be greater, without prejudice to the applicable norms of conservation until the matter under discussion shall be finally settled. In any event, the procedure set forth in this Clause shall apply without prejudice to the rights of the Parties to exercise such claims and actions as may correspond to them pursuant to this Contract.

7. *Solution of disagreements in the Sub-Committees:* In the event of disagreements, the Sub-Committees shall immediately put the disagreements forward for consideration by the Supervisory Committee.
8. *Secretaries of the Committees and Sub-Committees:* One of the members of the Committee or Sub-Committee chosen annually and alternately by the Parties, shall act as Secretary of each Committee or Sub-Committee.
9. *Duties of the Secretaries:* In addition to other duties which may be assigned to them, the Secretaries shall have among their duties to call meetings, prepare minutes of meetings in the Spanish language, number the meetings in successive order and obtain the signatures of the representatives of the Parties, among whom copies thereof shall be distributed.

*Paragraph Fifth*

*Presentation of the Plans, Annual Operating Program, and Corresponding Budgets*

I. "CONTRACTOR" must present to the Supervisory Committee, no later than June 30 of each year, an annual operating program and the tentative expense, capital and finance budgets corresponding to the following year and, for the first time, within fifteen (15) days following the selection by "CONTRACTOR" of the first lot, after having determined commercial production, for the purpose of initiating the consideration of said program and budgets and to permit "CVP" to evaluate sufficiently the programmed activities.

By no later than August 31st of each year, the Supervisory Committee shall approve, or reform, the tentative plans, annual operating program and budgets referred to in the preceding paragraph submitted for their consideration by the respective Sub-Committee. By no later than November 30th of each year, the Supervisory Committee shall approve, with the adjustments and modifications which it considers advisable, the final plans, annual operating program and expense, capital and financial budgets. The annual operating program must include, among others, the following programs:

1. Program of geophysical survey;
2. Program for exploratory, outpost and development drilling;
3. Program for production and exportation, with an indication of volumes, prices and destination of the crude;
4. Programs of projects of construction and installations of production, gathering, treatment and storage, fiscalization, transportation and delivery of crude;

*Venezuela*

5. Program for the abandonment or reconditioning of wells;
  6. Program for artificial lifting;
  7. Program for secondary recovery;
  8. Requirements of personnel.
- II. "CONTRACTOR's" annual operating program must include a five-year Plan referring to the projects forecast for the five (5) ensuing years. "CVP" shall deliver to the Ministry of Mines and Hydrocarbons a copy of said information for the purposes established in Clause Twenty-Fifth of this Contract.
- III. The plans, programs and budgets to be prepared and approved in accordance with the provisions hereof must have as their purpose the exclusive exploitation of the area of exploitation and the transportation of the petroleum to the point of delivery in the most economic and efficient manner in accordance with practices normally utilized in the petroleum industry and the placing by "CONTRACTOR," through sale in international markets, the volume of petroleum which corresponds to it.

*Paragraph Sixth*

*Emergency Expenditures*

"CONTRACTOR" is authorized in the event of emergencies in the operations to take all measures required or necessary in its judgment to solve the emergency, but "CONTRACTOR" shall inform the Supervisory Committee as soon as possible concerning the nature of the emergency, the measures adopted and the costs incurred.

*Paragraph Seventh*

*Information Concerning the Activities Carried Out*

"CONTRACTOR" shall keep "CVP" continuously informed of all activities carried out, and shall supply to "CVP" any type of information which may be requested in relation to the services contracted and shall present to "CVP" an annual report on the activities carried out during the year in a manner similar to that required by the Ministry of Mines and Hydrocarbons.

*Paragraph Eighth*

*Conservation Measures*

"CONTRACTOR" undertakes to comply with all those measures of conservation of energy of the reservoirs and gas produced, in accordance with the measures which have been or which may be dictated by the Ministry of Mines and Hydrocarbons.

*Paragraph Ninth*

*Unification and Operating Agreements*

In the case of common reservoirs or those in which operating agreements for achieving the greatest economy and efficiency of exploitation shall be advisable, the corresponding agreements shall be executed with the joint representation of "CVP" and "CONTRACTOR" in each area. After having been approved by the Supervisory Committee, the agreements to be executed must thereafter be approved by the Ministry of Mines and Hydrocarbons.

*Paragraph Tenth*

*"CONTRACTOR's" Personnel*

"CONTRACTOR's" personnel must be Venezuelan. Only in those cases in which specialized technical personnel shall be required and not otherwise available in Venezuela, except for the provisions of the corresponding Collective Contracts, and subject to the authorization of the competent authorities, "CONTRACTOR" may contract foreigners for a limited time upon the condition that they simultaneously train Venezuelans in the corresponding specialization. The personnel of "CONTRACTOR" shall deem to be constituted by those persons who work under the subordination of the Board of Directors of the company.

*Paragraph Eleventh*

*Local Purchases and Services*

"CONTRACTOR" shall make its acquisitions and contract services from suppliers and natural or juridical persons domiciled in Venezuela. Only in those cases in which the goods, materials, equipment or machinery and specialized services do not exist in the country or do not comply with the normal specifications required, then they may be obtained outside of Venezuela, after having complied with the legal requirements.

*Paragraph Twelfth*

*Inspection and Fiscalization*

The work and activities of "CONTRACTOR" shall be subject to the provisions of Chapter III of the Hydrocarbons Law and the Regulations thereof.

**CLAUSE ELEVENTH**

**MARKETING**

"CONTRACTOR" shall place through the sale thereof in international markets the petroleum which it receives from "CVP" in accordance with the provisions of Paragraph First of Clause Second of this Contract and subject to the marketing programs approved by the Marketing Sub-Committee and the Supervisory Committee.

*Paragraph First*

*I. Criteria for the Establishment of Prices*

"CONTRACTOR" shall sell said petroleum at the commercial price established by the Marketing Sub-Committee and approved by the Supervisory Committee, taking into account current commercial practices, the fiscal laws, and the norms and recommendations of the Coordinating Committee for the Conservation and Commerce of Hydrocarbons.

*II. Solution of disagreement in the event of disagreement in the establishment of prices in Non-Programmed Sales*

In the event of disagreement in the establishment of prices corresponding to sales which are not included in the Annual Marketing Program presented by "CON-

*Venezuela*

TRACTOR" in accordance with the provisions of Paragraph Fifth of Clause Tenth, the following procedure shall be carried out.

- (a) Within fourteen (14) days following the date upon which "CONTRACTOR" shall have proposed the sales price in a joint meeting of the Marketing Sub-Committee and the Supervisory Committee, the Supervisory Committee shall establish as the price the average of the F.O.B. export prices invoiced by "CONTRACTOR" for crude petroleum of the same type and quality sold with the prior approval of the Supervisory Committee during the three (3) months immediately preceding the date upon which "CONTRACTOR" shall have proposed the price in discussion.
- (b) In order to determine said average price, the amount of F.O.B. prices of all invoices relating to the sale of petroleum of the same type and quality made during the abovementioned period in accordance with the provisions of subparagraph (a) of this Paragraph shall be added together, and the result thereof shall be divided by the total amount of petroleum covered by said invoices.
- (c) If said average price during the said period of three (3) months cannot be established, there shall be utilized the average price determined by the Coordinating Committee for the Conservation and Commerce of Hydrocarbons on the F.O.B. prices of petroleum of a similar quality and characteristics sold by third parties during the same period of three (3) months, and there shall be made such adjustments as may be necessary to take into account the differences in quality and characteristics of the petroleum and the transportation thereof from the different export terminals.
- (d) The Marketing Sub-Committee shall determine the applicable procedure to convert any other type of price to the equivalent F.O.B. export price.

*III. Solution of disagreements in the event of disagreement in the establishment of prices respecting programmed sales*

In the event of disagreement in the establishment of prices corresponding to sales included in the Annual Marketing Program presented by "CONTRACTOR" pursuant to the provisions of Paragraph Fifth of Clause Tenth, there shall be followed the procedure established for the solution of disagreements as set forth in sub-paragraph 6 of the Section concerning Provisions Common to Committees and Sub-Committees in Paragraph Fourth of said Clause, but the same procedure as contemplated in sub-paragraph II of this Paragraph shall be applied if, as of November 30th of the corresponding year, no agreement shall have been reached concerning the prices of said sales. In these cases, the average F.O.B. prices referred to in sub-paragraphs (a), (b) and (c) of sub-paragraph II of this Paragraph shall be that corresponding to the three (3) months immediately preceding the date upon which the respective sales contract shall be executed.

The price so obtained shall be applied to all sales subject to disagreement, but any of the parties may exercise the rights and actions corresponding to it pursuant to this Contract within two (2) months following the date upon which the respective sale shall have been made.

*Paragraph Second*

*Spot Sales*

"CONTRACTOR" may carry out transactions of the type known as spot sales before the price thereof shall have been established in accordance with the provisions of this Clause, provided that the circumstances make such transaction advisable in accordance with the regulations which shall be approved for such purpose by the Supervisory Committee. When the price established by the Supervisory Committee for said transaction is distinct from the price at which said transaction shall have been carried out, the price established by the Supervisory Committee shall, in respect of said transaction, substitute the price of realization for all purposes of this Contract, except in respect of the future establishment of the average price referred to in sub-paragraphs (a) and (c) of the First Paragraph of this Clause.

*Paragraph Third*

*Option of "CVP" to Acquire Petroleum*

When "CONTRACTOR" presents to the Marketing Sub-Committee offers from third parties (companies not affiliated with "CONTRACTOR") for the purchase of petroleum, the price, terms and conditions of which shall not be considered acceptable by the representatives of "CVP" on the Sub-Committee, "CVP" may acquire said petroleum at the same price, terms and conditions of payment presented by "CONTRACTOR" within twenty (20) days following the moment of objection by "CVP" in the Marketing Sub-Committee.

**CLAUSE TWELFTH**

**REFINING IN THE COUNTRY**

"CVP" and "CONTRACTOR," by their own initiative or upon request by the National Executive, shall execute contracts for refining in the national territory of all or a part of the petroleum transferred to "CONTRACTOR," in accordance with Paragraph First of Clause Second of this Contract. If "CVP" and "CONTRACTOR" shall reach an agreement, the draft agreement shall require the authorization of the National Executive and the approval of the Congress of the Republic.

**CLAUSE THIRTEENTH**

**INALIENABILITY OF THE RIGHTS OF EXPLORATION  
AND EXPLOITATION**

In accordance with the provisions of Article 3 of the Law of Hydrocarbons and Article 4 of the By-Laws of "CVP," "CONTRACTOR" shall not acquire any rights to the reserves discovered and "CVP" shall not alienate or encumber the rights of exploration and exploitation of hydrocarbons transferred to it and said rights may not be subject to levy by third parties.

*Venezuela*

**CLAUSE FOURTEENTH**

**ASSIGNMENT OR TRANSFER OF THE CONTRACT**

This Contract has been executed taking into account the technical capacity and experience of "CONTRACTOR" in operations of the petroleum industry and activities related thereto, as well as the economic and financial backing which has been proven by "CONTRACTOR," for which reason "CONTRACTOR" undertakes not to assign or transfer in whole, or in part, this Contract, without the prior authorization of "CVP" and the approval of the National Executive, both in writing.

"CONTRACTOR" may sub-contract individual operations with the approval of the Coordinating Committee or the Supervisory Committee, as the case may be.

**CLAUSE FIFTEENTH**

**REVERSION TO THE NATION OF THE LANDS, WORKS AND OTHER ASSETS USED IN THE PERFORMANCE OF THIS SERVICE CONTRACT**

In accordance with Article 3, Paragraph 2, Number 5 of the Law of Hydrocarbons, the lands and permanent works, including the installations, accessories and equipment forming an integral part thereof, and any other assets acquired for the purpose of carrying out this Contract, whatever the legal basis upon which acquired, shall be conserved in order for the title thereto to be given to the Nation, without any payment or indemnity, upon the termination of this Contract for any cause.

*Paragraph First*

*Supervision by "CVP"*

"CVP" shall aid the Ministry of Mines and Hydrocarbons in the due supervision, in order that "CONTRACTOR" shall maintain and give appropriate use to such assets, title to which shall pass to the Nation.

*Paragraph Second*

*Acts of Administration and Disposition*

When the efficiency of the operations directed to an economic development of the contracted area justifies the alienation, removal, exchange or any other act respecting those assets which may affect the rights of the Nation, "CVP," on its own initiative or at the request of "CONTRACTOR," shall handle the application to the National Executive, which, if it deems it convenient, shall give the necessary authorization in order to carry out the act for which the application has been made.

**CLAUSE SIXTEENTH**

**FINANCIAL OBLIGATIONS OF "CONTRACTOR"**

"CONTRACTOR" shall contribute for its exclusive account the capital necessary to carry out the investments, operating expenses, and any other expenditures required for the performance of the obligations assumed by this Contract.

*Sole Paragraph*

*Non-Deductibility of Losses*

"CONTRACTOR" agrees that such investments, expenses and expenditures are for its exclusive account and risk; as a consequence thereof, "CONTRACTOR" and its stockholders shall not deduct the net exploitation losses which may result from these operations from any other taxable income which "CONTRACTOR" or its stockholders have, or shall obtain in the country, arising from activities distinct from those contemplated in the purpose of the Service Contracts respecting Blocks "A," "D" and "E."

**CLAUSE SEVENTEENTH**

**FINANCIAL PARTICIPATION OF "CVP"**

"CONTRACTOR" shall give to "CVP" the financial participation constituted by the following items:

**FOR BLOCK "A"**

*Paragraph One—Bonuses*

*Contract*

At the time of execution of this Contract, "CONTRACTOR" shall pay to "CVP" a cash bonus of one million two hundred thousand U.S. dollars (U.S. \$1,200,000).

*Production*

- (a) "CONTRACTOR" shall pay to "CVP" a cash bonus in the amount of five hundred thousand U.S. dollars (U.S. \$500,000), upon establishing commercial production.
- (b) "CONTRACTOR" shall pay to "CVP" a cash bonus of six hundred and eighty thousand U.S. dollars (U.S. \$680,000), when the rate of production of the two (2) lots selected by "CONTRACTOR" reaches for the first time nine thousand (9,000) barrels per day, in accordance with the production tests carried out on all the wells within the term of one month, adjusted by the fiscalized production during the same month. For the purpose of this Paragraph, "CONTRACTOR" shall make at least one production test of each well per month and this shall be repeated in the same form until the moment in which the above described production rate shall have been reached. In addition, "CONTRACTOR" shall pay to "CVP" cash bonuses in accordance with the amount of accumulated production from said two (2) lots, commencing with five million (5,000,000) barrels of petroleum, inclusive, and up to thirty million (30,000,000) barrels of petroleum inclusive, each of which bonuses shall be in the amount of two hundred and ten thousand U.S. dollars (U.S. \$210,000) for each increment of five million (5,000,000) barrels.

*Venezuela*

FOR BLOCK "D"

*Paragraph One—Bonuses*

*Contract*

At the time of execution of this Contract, "CONTRACTOR" shall pay to "CVP" a cash bonus of two million U.S. dollars (U.S. \$2,000,000).

*Production*

- (a) "CONTRACTOR" shall pay to "CVP" a cash bonus in the amount of five hundred and fifty thousand U.S. dollars (U.S. \$550,000), upon establishing commercial production.
- (b) "CONTRACTOR" shall pay to "CVP" a cash bonus of two million seven hundred and fifty thousand U.S. dollars (U.S. \$2,750,000), when the fiscalized production of crude oil of the two (2) lots selected by "CONTRACTOR" reaches for the first time twenty-five thousand (25,000) barrels per day, in accordance with the production tests carried out on all the wells within the term of one month, adjusted by the fiscalized production during the same month. For the purpose of this Paragraph, "CONTRACTOR" shall make at least one production test of each well per month and this shall be repeated in the same form until the moment at which the above described production rate shall have been reached.

In addition, "CONTRACTOR" shall pay to "CVP" cash bonuses in accordance with the amount of accumulated production, commencing with twenty-five million (25,000,000) barrels of petroleum inclusive, and up to two hundred and fifty million (250,000,000) barrels of petroleum inclusive, each of which bonuses shall be in the amount of eight hundred and ten thousand U.S. dollars (U.S. \$810,000) for each increment of twenty-five million (25,000,000) barrels.

FOR BLOCK "E"

*Paragraph One—Bonuses*

*Contract*

At the time of execution of this Contract, "CONTRACTOR" shall pay to "CVP" a cash bonus of four million U.S. dollars (U.S. \$4,000,000).

*Production*

- (a) "CONTRACTOR" shall pay "CVP" a cash bonus in the amount of three hundred thousand U.S. dollars (U.S. \$300,000), upon establishing commercial production.
- (b) "CONTRACTOR" shall pay "CVP" a cash bonus of three hundred thousand U.S. dollars (U.S. \$300,000), when the fiscalized production of the two (2) lots selected by "CONTRACTOR" reaches for the first time twenty-five thousand (25,000) barrels per day, during a period of one (1) month. For each increment of five thousand (5,000) barrels per day, above twenty-five thousand (25,000) barrels per day and until reaching fifty thousand (50,000) barrels per day, "CONTRACTOR" shall pay "CVP" a cash bonus of one hundred thousand U.S. dollars

(U.S. \$100,000); for each increment of five thousand (5,000) barrels per day above fifty thousand (50,000) barrels per day and until reaching seventy-five thousand (75,000) barrels per day, "CONTRACTOR" shall pay "CVP" a cash bonus of two hundred thousand U.S. dollars (U.S. \$200,000); for each increment of five thousand (5,000) barrels per day above seventy-five thousand (75,000) barrels per day, and until reaching one hundred thousand (100,000) barrels per day, "CONTRACTOR" shall pay "CVP" a cash bonus of three hundred thousand U.S. dollars (U.S. \$300,000); for each increment of twenty-five thousand (25,000) barrels per day above one hundred thousand (100,000) barrels per day and until reaching one hundred fifty thousand (150,000) barrels per day, "CONTRACTOR" shall pay "CVP" a cash bonus of two million five hundred thousand U.S. dollars (U.S. \$2,500,000); and lastly, for each increment of twenty-five thousand (25,000) barrels per day above one hundred fifty thousand (150,000) barrels per day and until reaching two hundred thousand (200,000) barrels per day, "CONTRACTOR" shall pay "CVP" a cash bonus of three million U.S. dollars (U.S. \$3,000,000).

**FOR BLOCKS "A," "D" and "E"**

*Option of "CVP"*

"CVP" shall have the option to require "CONTRACTOR" to pay all and each of the cash bonuses set forth in this paragraph in dollars of the United States of America or in Bolivars resulting from the conversion of said sums of dollars at the official rate of exchange which may be applicable to "CONTRACTOR" as of the moment of conversion.

*Non-Deductibility or Imputability of the Bonuses*

"CONTRACTOR" may not deduct the cash bonuses set forth in this Paragraph from its net profits for the purpose of "CVP's" additional participation referred to in the third paragraph of this Clause nor shall said bonuses be imputed to cost or deducted as an expense or amortized for purposes of income taxes, nor may they be imputed to the cost of petroleum retained by CVP in accordance with the provisions of the first paragraph of Clause Second of this Contract.

*Paragraph Second—Depletion*

"CONTRACTOR" shall pay to "CVP" for depletion an amount equal to five percent (5 %) of the Exploitation Tax paid by "CONTRACTOR."

*Paragraph Third*

*Additional Participation of "CVP" in accordance with Production*

"CONTRACTOR" shall pay annually to "CVP" within the month of April of each year an additional participation based upon the net profits per barrel obtained by the "CONTRACTOR" during the immediately preceding fiscal year, which shall be calculated in accordance with the following table:

*Venezuela*

<i>Net Profit of Contractor per barrel (in cents of U.S. dollars)</i>	<i>Additional participation of "CVP" (in cents of U.S. dollars) in the net profits per barrel</i>
Less than	
18	0,0
18	0,3
21	0,6
25	1,1
30	2,2
35	3,5
40	5,6
45	7,9
50	10,4

If the net profit per barrel of "CONTRACTOR" shall exceed fifty cents (U.S. \$0.50) the factor of participation of "CVP" shall be ten point four cents (cents 10.4) plus fifty-five percent (55 %) of the excess of the net profit per barrel above fifty cents (U.S. \$0.50).

When the net profit per barrel of "CONTRACTOR" is included within two values of the table, the factor of participation of "CVP" shall be determined by means of lineal interpolation as explained in the following example:

If the net profit per barrel of "CONTRACTOR" shall reach thirty-eight cents (U.S. \$0.38), the factor of participation of "CVP" shall be calculated as follows:

*Values of Factor of Participation according to the Table*

<i>Net Profit</i>	<i>Factor of additional participation</i>
cents 35	cents 3.5
cents 40	cents 5.6

The factor of participation of "CVP" corresponding to 38 cents shall be:

$$Y_{38} = \frac{5.6 - 3.5}{40 - 35} (38 - 35) + 3.5 = 4.76$$

that is cents 4.76

The factor of participation of "CVP" for the respective year determined in the form hereinabove set forth shall be multiplied by the total number of barrels of petroleum transferred by "CONTRACTOR" to "CVP" and sold by "CONTRACTOR" during the preceding calendar year.

For the determination of the net profit per barrel of "CONTRACTOR," there shall only be taken into account the petroleum which shall have been transferred to "CON-

TRACTOR" by "CVP" in accordance with the First Paragraph of Clause Second hereof.

#### CLAUSE EIGHTEENTH

##### SPECIAL ADVANTAGES

"CONTRACTOR" grants the following special advantages:

*1. Option to "CVP" to Process Petroleum in a projected Refinery in the United States of America*

In the event that the projected refinery in the United States of America shall be constructed by "CONTRACTOR," OCCIDENTAL PETROLEUM CORPORATION or an affiliate of the latter, "CVP" shall have the right, in accordance with the terms of this Contract and subject to the terms and conditions of this Paragraph 1, to supply to said Refinery the "CVP Participation" as defined hereafter. For the sole purposes of this Paragraph 1, "CVP's Participation" shall mean ten percent (10 %) of the total volume of petroleum produced by "CONTRACTOR" in the Areas of Exploitation under the Service Contracts for Blocks "A," "D" and "E," which "CONTRACTOR" decides from time to time to refine in said Refinery, and said 10 % must be supplied by "CVP" exclusively from its participation of the Petroleum produced by "CONTRACTOR" in the Areas of Exploitation in accordance with said Service Contracts. "CONTRACTOR" shall notify "CVP" at such time at which it shall have decided to construct the projected refinery, and shall give to "CVP" its best estimate on the projected time for construction of the Refinery. "CVP" shall have six (6) months after having received said notice, to elect by means of written notice given to "CONTRACTOR" for such purpose to supply "CVP's Participation" for a term that shall not be less than two (2) years commencing on the date of commencement of commercial production of said Refinery.

Said period may be extended by "CVP" for successive periods of no less than two (2) years each, during the term of this Contract, by giving written notice to such effect to "CONTRACTOR" at least six (6) months prior to the termination of the then current period. In the event that "CVP" shall not elect to supply "CVP's Participation," or shall not extend the period in accordance with the provisions hereof, "CVP" may not supply "CVP's Participation" thereafter until after having given written notice to "CONTRACTOR" of its desire to supply "CVP's Participation" for a period of no less than two (2) years, which period shall never commence before one (1) year after the receipt of said notice by "CONTRACTOR". Thereafter, said period of two (2) years may be extended by "CVP," for successive periods of no less than two (2) years each, during the term of this Contract, in the manner hereinabove set forth. The processing fee which shall be charged to "CVP" for "CVP's Participation" is fifty-six cents (U.S. \$0.56) per barrel and said charge may be adjusted between the Parties from time to time, taking into account the cost of operation of the Refinery, including the cost of labor, materials, supplies, equipment, construction and the like. In the event that the Venezuelan crude supplied to the Refinery shall

### *Venezuela*

be of 37—38° API, the yield of the refined products shall be approximately the following:

#### *Base No. 1*

No production of motor gasoline and a maximum amount of Combustible No. 2	
Raw material for petrochemical	24 %
Combustible No. 2 (Fuel Oil)	36 %
Combustible No. 6 (Bunker "C" Fuel Oil)	36 %
Combustible (fuel) for the Refinery and losses	4 %
	<hr/>
	100 %

#### *Base No. 2*

Convert part of the raw material for petrochemical into motor gasoline and maintain a maximum amount of Combustible No. 2

Motor gasoline	8 %
Raw material for petrochemical	14 %
Combustible No. 2 (Fuel Oil)	36 %
Combustible No. 6 (Bunker "C" Fuel Oil)	36 %
Combustible (fuel) for the Refinery and losses	6 %
	<hr/>
	100 %

All the percentages are of liquid volume, and the production of motor gasoline shall be fifty percent (50%) PREMIUM at 100 RON and fifty percent (50%) REGULAR to 94 RON with lead, or alternatively fifty percent (50%) PREMIUM to 96 RON and fifty percent (50%) REGULAR to 92 RON without lead.

2. *Construction of a terminal of supertankers in deep waters of the Gulf of Venezuela*  
If the participation of "CONTRACTOR" and of "CVP" from the petroleum produced in the Areas of Exploitation in Blocks "A," "D" and "E" shall reach during thirty (30) days an average of no less than two hundred thousand (200,000) barrels per day, and if previously approved by the competent authorities, OCCIDENTAL PETROLEUM CORPORATION shall construct and operate, or cause to be constructed and operated, a port for supertankers in the Gulf of Venezuela, with installations for pumping and storage. While the estimates which follow may vary as a result of the final engineering design, it is estimated that the storage terminal shall have a capacity of three million two hundred thousand (3,200,000) barrels, exclusive loading facilities in deep waters capable of receiving tankers with a capacity of two hundred thousand (200,000) DWT, and a pumping capacity of one hundred thousand (100,000) barrels per hour.

3. *Use of the "CVP" Petroleum Products*

"CONTRACTOR" shall use "CVP's" petroleum products for the performance of the Operations under this Contract, in those cases where there exist products of quality and quantity required and at competitive prices.

4. *Study Project on the Orinoco Tar Belt*

"CONTRACTOR" shall spend in respect to all Service Contracts for Blocks "A," "D" and "E," collectively, and during the three (3) years following the date upon

*Selected Documents — 1971*

which production of petroleum in commercial quantities has commenced, the amount of one million U.S. dollars (U.S. \$1,000,000) on a study project for the exploitation of the oil bearing sands of the Orinoco Tar Belt in Eastern Venezuela. The scope of the study to be carried out shall be agreed upon with "CVP."

Any study program shall be conducted jointly by technical representatives of "CONTRACTOR" and of "CVP." At any time after having commenced the study project, "CONTRACTOR" shall have the right to present an offer and a plan for development of the Orinoco Tar Belt.

**5. Option to "CVP" to participate in the capital stock of "CONTRACTOR"**

As soon as commercial production shall have been determined, in accordance with Clause Seventh of this Contract, and within one hundred and eighty (180) days after the selection by "CONTRACTOR" of its first lot, "CVP" may exercise the right to acquire under the Service Contracts for Blocks "A," "D" and "E," a total and maximum amount of one percent (1 %) of the shares of the capital stock of "CONTRACTOR" by paying the nominal value corresponding to the shares to be acquired.

**CLAUSE NINETEENTH**

**TAX SYSTEM**

"CONTRACTOR" shall pay to the National Treasury, in the name and for the account and order of "CVP," the amount of taxes, contributions and other fiscal obligations set forth in the Hydrocarbons Law, with the limitations contemplated at the end of the first part of Article 46 of said Law, and shall charge such payments as cost of production of petroleum. The exploitation tax and the other taxes, contributions and fiscal obligations shall be paid in accordance with the provisions established in said Law. In the event that the National Executive shall choose to receive said exploitation tax in cash, the tax shall be calculated in accordance with the agreement for the payment of royalties which must be executed between "CVP" and the National Executive, taking as a base the reference values for royalties of the existing agreements for similar hydrocarbons, it being understood that realization prices obtained above the reference prices determined in accordance with the said agreements shall prevail over said reference prices. The reference prices for royalties shall be equal to those that are in effect for the concessionary companies.

**CLAUSE TWENTIETH**

**PAYMENT OF OTHER TAXES**

"CONTRACTOR" shall pay in its name and for its account such other taxes as may be applicable to it for the activities which it carries out in the country, including income

*Venezuela*

tax, in accordance with the legal and regulatory provisions in existence and those which, in the future, may be established by the competent authorities of the Public Power.

**CLAUSE TWENTY-FIRST**

**ACCOUNTING SYSTEM AND AUDIT**

“CONTRACTOR” shall adopt an accounting system and a code of accounts based upon the Accounting Guide attached hereto.

“CVP” shall carry out audits within the six (6) months following the close of each annual fiscal year, and at any time, accounting examinations of the books and other documents of “CONTRACTOR” in accordance with Paragraph (b) of Section III of said Guide. All matters relating to cost accounting, investments, expenses and the methods of depreciation and amortization shall be governed by the Accounting Guide.

**CLAUSE TWENTY-SECOND**

**CAUSES OF RESOLUTION OF THIS CONTRACT**

In addition to the causes of resolution contemplated for the exploratory phase, this Agreement may be terminated in the following cases:

- (a) For breach by “CONTRACTOR” of the obligation to pay in the name of “CVP” the taxes set forth in the Hydrocarbons Law at the times set forth in said Law and the Regulations thereto, taking into account before the termination of this Contract, the grace periods and extensions set forth therein. The termination of this Contract for the cause as herein set forth shall operate automatically.
- (b) When “CONTRACTOR,” after having made the alternate selection, shall not commence the production of the discovered petroleum after having constructed the required production installations, or shall substantially diminish the annual production to a level not agreed upon with the approval of the Supervisory Committee, as provided for in Clause Ninth of this Contract.
- (c) For assigning, in whole or in part, this Contract without the prior authorization of “CVP” and the approval of the National Executive.

*Paragraph First*

*Notification in the Event of Breach*

If one of the Parties considers that the other is in breach of this contract, it shall notify said Party in writing thereof, specifying the alleged breach and requesting the other Party to cure said breach, if susceptible of curing, within ninety (90) days following receipt of said notification. If within said term of ninety (90) days the other Party shall

*Selected Documents — 1971*

not have cured said breach, the Party damaged by said breach may, if it desires, sue for the termination of this Contract or the performance thereof before the Venezuelan courts, and shall be entitled to claim damages and prejudices caused by said breach.

*Paragraph Second*

*Damages and Prejudices and Execution of Decision*

If this Contract shall be resolved for the causes hereinabove set forth, in addition to the provisions of Clause Fourteenth of this Contract, or if the performance thereof shall be ordered, "CVP" may take legal action against "CONTRACTOR" for the damages and prejudices which the breach may have caused, without prejudice to the right of "CVP" to execute the performance bond granted for the purpose of this Contract.

*Paragraph Third*

*Protection of Interests of the National Treasury*

The resolution of this Contract shall occur without prejudice or detriment to the interest of the National Treasury, which shall maintain in effect the rights and actions corresponding to it in respect of the taxes and contributions which "CONTRACTOR" may have been obligated to pay as of the time of resolution of this Contract.

**CLAUSE TWENTY-THIRD**

**FORCE MAJEURE**

The non-performance or delay in the performance of any of the obligations of this Contract, shall not be deemed to be breach, violation or non-performance thereof, if such non-performance or delay is due to fortuitous circumstance or force majeure. There shall be deemed to be fortuitous circumstance or force majeure, labor conflicts, strikes, any order or requirement of a legitimate authority, explosions, wars and blockades, sabotage, uprisings, fires, floods, tornadoes, hurricanes, ground swells, tidal waves, lightning or other events of nature, provided that in the occurrence of said acts the Party affected shall have exercised due care and diligence to reasonably control, avoid or prevent the act and the damaging consequences thereof.

*Sole Paragraph*

*Notification of Force Majeure*

Any of the Parties to this Agreement who cannot comply with any obligation or condition thereof due to Force Majeure, shall notify the other Party in writing, as soon as possible, of the cause of said non-performance and shall re-initiate performance, if possible, within a reasonable period after the Force Majeure shall have disappeared. In no case, and for no cause, shall the term of this Contract extend beyond the period of twenty-three (23) years provided for in Clause Fourth hereof.

*Venezuela*

**CLAUSE TWENTY-FOURTH**

**TERMINATION OF THE CONTRACT BY "CONTRACTOR" DURING THE EXPLOITATION PERIOD**

"CONTRACTOR" may terminate this Contract during the period of exploitation at any time it shall demonstrate in a genuine manner that the economic conditions of exploitation of the recoverable petroleum as of that time have changed in such manner that the continuation thereof would not be economically attractive to "CONTRACTOR." For such purpose an economic projection shall be made to commence from that time until the end of the exploitation period referred to in Clause Fourth taking into account the remaining recoverable reserves in the area of exploitation during the remaining period.

In order to carry out said economic projection the income from "CONTRACTOR's" sales shall be calculated at the applicable realization prices. From the year to year income, there shall be deducted the cost of exploration, development, exploitation, taxes, participations and other applicable expenses in accordance with the Accounting Guide. To the series of net profits so obtained, there shall be added the corresponding annual depreciation and amortization. These series of cash flows shall be adjusted against the net book value of the assets and the investments which may be necessary in the years remaining until the termination of the contract in order to obtain a series of adjusted cash flows to which shall be applied a discount rate which shall be proposed by "CONTRACTOR" between ten percent (10 %) and fifteen percent (15 %). If the result of the algebraic sum of the discounted value shall be a negative amount, it shall be deemed that the continuation of the Contract is not economically attractive to "CONTRACTOR."

*Paragraph First*

*Notice to "CVP" by "CONTRACTOR"*

For the purpose of making termination effective, "CONTRACTOR" must be solvent in all its obligations with the National Treasury and must notify "CVP" by no later than December 31st of any year in order to make termination of the Contract effective on December 31st of the following calendar year, unless that "CONTRACTOR" shall in the same notification manifest its decision not to continue to operate during said calendar year. "CONTRACTOR" must operate at least until January 31st of the calendar year of notice. The year of notice shall mean the year between the first of January and the thirty-first of December immediately following said date of notification by "CONTRACTOR."

*Paragraph Second*

*Continuation of Activities by "CONTRACTOR"*

During the year of notice, "CONTRACTOR" shall carry out the operations normally, performing the corresponding plans, annual operating program and expense and

*Selected Documents — 1971*

investment budgets approved by Supervisory Committee and disposing of the petroleum corresponding to it in the manner set forth in this Contract and complying with all the terms and conditions hereof.

Nevertheless, "CVP" may assume the operations at any time during the year of notice, in which case "CONTRACTOR" shall pay only those financial obligations which it may have undertaken to perform through said time, or which may be due and payable until said time in accordance with the plans, annual operating program and budgets approved for said year.

*Paragraph Third*

*Indemnity to "CVP" by "CONTRACTOR"*

At the time of giving the notice set forth in Paragraph First, "CONTRACTOR" may decide not to continue with the operations during the following calendar year, in which case it shall pay to "CVP" as indemnity:

- (a) The amount of the expenses and capital investments approved in the budgets corresponding to said calendar year.
- (b) An amount equivalent to that which would have corresponded to "CVP" pursuant to this Contract in the event that "CONTRACTOR" would have continued the operations during the calendar year of notice.

**CLAUSE TWENTY-FIFTH**

**APPLICATION OF THE LAW OF HYDROCARBONS AND THE  
REGULATIONS THERETO**

The provisions of the Law of Hydrocarbons and of the Regulations thereto shall be applicable to this Agreement insofar as they are compatible therewith.

*Sole Paragraph*

*Authorization to "CONTRACTOR" to Exercise the Complementary Rights of "CVP"*  
For the purpose of facilitating "CONTRACTOR" the carrying out of the activities set forth in Clause Second of this Contract, "CVP" hereby authorizes "CONTRACTOR" in its name and representation, to exercise the complementary rights corresponding to "CVP" in accordance with the Law of Hydrocarbons and the Regulations thereto and for such purpose "CONTRACTOR" may request the constitution of any easements, rights-of-way, tax exonerations or import duty exoneration, or any other complementary rights which may be pertinent.

**CLAUSE TWENTY-SIXTH**

**JURISDICTION OF THE COURTS OF VENEZUELA AND APPLICATION OF  
THE LAWS THEREOF**

Any doubts or controversies which may arise as a result of the performance of this Contract and which may not be resolved amicably, shall be decided by the competent

*Venezuela*

courts of Venezuela in accordance with the laws thereof, and shall not be the motive or cause for any foreign claims.

**CLAUSE TWENTY-SEVENTH**

**FAITHFUL PERFORMANCE BOND**

I, Armand Hammer, of legal age, married, domiciled in the City of Los Angeles, State of California, United States of America, on transit in Caracas, identified by Passport N° J-1150293 issued by the Passport Office of the Department of State of the United States of America on March 18, 1968, in my capacity as Chairman of the Board of the company OCCIDENTAL PETROLEUM CORPORATION, a company organized and existing in accordance with the laws of the State of California, United States of America, and domiciled in the City of Los Angeles, State of California, and duly authorized for this purpose by the Board of Directors, as evidenced by the resolution adopted on June 8, 1971, a duly legalized copy of which, translated by Public Interpreter, I attach hereto as forming part of this Contract, hereby declare:

Whereas OCCIDENTAL DE VENEZUELA INC was the company selected by Corporación Venezolana del Petróleo in the bidding for the execution of a Service Contract for the exploration and exploitation of the Block known as ("A," "D" or "E"), sufficiently identified in Clause Third of this Agreement, for which purpose and for the execution and performance thereof my principal has constituted in accordance with the laws of Venezuela the company known as OCCIDENTAL PETROLEUM DE VENEZUELA S.A., already identified, which is a party to this Contract, consequently, and in order to guarantee to Corporación Venezolana del Petróleo the faithful performance of each and all of the obligations undertaken by Occidental Petroleum de Venezuela S.A., above identified, in its capacity as "CONTRACTOR," therefore I constitute my principal OCCIDENTAL PETROLEUM CORPORATION, already identified, joint and several obligor to guarantee to Corporación Venezolana del Petróleo the faithful performance of all and each of the obligations assumed by "CONTRACTOR," Occidental Petroleum de Venezuela S.A., hereunder, during the term hereof until its full and complete termination.

**CLAUSE TWENTY-EIGHTH**

**DOMICILE**

For all purposes of this Contract, the city of Caracas, Venezuela, is elected the special domicile with exclusion of any other domicile, and the Parties hereby declare that they submit themselves to the jurisdiction of the Courts of said City.

In accordance with the matters herein set forth, this Contract is signed in four (4)

*Selected Documents — 1971*

originals of a single tenor and to a sole purpose, in the city of Caracas, on the twenty-ninth day of July nineteen hundred seventy-one (1971).

CORPORACION VENEZOLANA  
DEL PETROLEO ("CVP")

By:

Maurice Valery  
Director General

OCCIDENTAL PETROLEUM DE  
VENEZUELA S.A. ("CONTRACTOR")

By:

Armand Hammer  
President

OCCIDENTAL PETROLEUM  
CORPORATION ("GUARANTOR")

By:

Armand Hammer  
Chairman of the Board of Directors

SCHEDULE "A"

*I. Classification of Wells Before Drilling*

Before proceeding to drill, the wells shall be classified as follows:

*1. Exploitation or development wells (A 0)*

These are the wells located within the proven area of a reservoir, which were drilled for the purpose of further developing said reservoir. Following the discovery of a new reservoir (or new field), the second and following wells shall all be called "exploitation wells," when they are drilled within the area already proven by wells previously drilled. When a field is made up of two or more reservoirs, the words "exploitation wells" shall be used only where the function of the well is directed toward the producing reservoir within the proven area in which the well is located.

*2. Outposts (A 1)*

These are wells which are less risky than exploratory wells as such (wildcats), located outside the proven area of a reservoir and drilled for the purpose of extending laterally the proven area of said reservoir. The main function of these wells is directed toward the producing reservoir, even though this may later be changed and these wells might be completed either in an upper or lower reservoir.

2.01 Upon classifying a well as exploratory or outpost, the main factor to be taken into account is the risk involved in the search for oil.

## *Venezuela*

In areas where reservoirs are characteristically of great areal extent and uncomplicated geologically, a well located at various normal spacings from the nearest producing well may be classified as an "outpost" well. Under complicated geological conditions, as in the case of a salt dome, or within an area characterized by faulty, lenticularity or strata or facies changes between sands and shales, a well drilled outside the established limits of a reservoir, even when it is located on the same structure, shall be essentially classified by definition as an exploratory well of a new reservoir.

- 2.02 Classification of a well as exploratory, before it has been drilled, may not be modified later. When two wells located in the same area are started as exploratory wells, the fact that commercial production is found in one of these wells before the second well has been concluded, shall not cause any change in the "classification before drilling" of the second well.

**3. *Exploratory wells of upper reservoirs (A2a)***

These are wells located within the established limits of a reservoir drilled to explore for new producing strata above the producing reservoir, or above the deepest producing reservoir, if there are more than two overlapping producing reservoirs in the location of the well.

**4. *Deeper-pool exploratory wells (A2b)***

These are wells located within the established limits of a reservoir or reservoirs drilled to explore for new producing horizons beneath the tested reservoir or beneath the deepest reservoir, if there is more than one.

4.01 *Beneath*, as used in this definition shall mean "stratigraphically beneath" or "at a greater depth than." However, in some cases, such as in the case of thrust faulting, the objective in a deeper-pool exploratory well could be stratigraphically younger but deeper than the producing reservoir.

4.02 Moreover, under special conditions the definition of "deeper-pool exploratory well" may be applied to a well drilled within the tested area of an upper reservoir, when this is located at a considerable distance from the proven area of a lower reservoir, in the event that the function of such well is to test a layer located beneath the producing reservoir. The well would be classified as an exploratory well as such (wildcats) except for the existence of an upper reservoir in the area where the well is located.

*Note:* "Deeper-pool exploratory wells" and shallower-pool exploratory wells are exploratory wells in the vertical sense, even when drilled within the limits of a proven area. To make the definition easier, the shallower-pool exploratory wells and the deeper-pool exploratory wells are related to the deepest producing reservoir in an area where two or more overlapping reservoirs exist.

**5. *Exploratory wells as such (wildcats)***

These are wells drilled in locations where production from proven reservoirs is not expected. Such wells are either exploratory of a new field or exploratory of a new reservoir.

**5.01 *Exploratory wells of a new reservoir (A2c)***

These are wells drilled within a structure, or an area where other reservoirs have been discovered, but where the subsurface conditions, either presumed or known, are such that the sole function of these wells would be to discover new reservoirs.

**5.02 *Exploratory wells of a new field (A3)***

These are wells drilled within a structure, or an area, where no petroleum has been discovered as yet.

**II. Classification of Wells After Completion**

**1. Dry holes**

This description covers those wells where drilling was unsuccessful in discovering hydrocarbons in commercial quantities.

**2. Extension wells**

Any well shall be classified as an extension well (following the drilling thereof) if it enlarges the productive area of a proven reservoir; in the case of exploratory wells for new reservoirs, this classification cannot be reasonably applied until said condition has been proven; which may eventually require the drilling of several intermediate wells. (See Section 3 below.)

**3. Discovery well**

Any well which results in the discovery of a petroleum reservoir shall be classified as discovery well.

**3.01** To discover is to find a reservoir previously unknown or unproven. The first reservoir located on a structure shall serve to indicate the discovery of a new reservoir or a field, since the first reservoir may be a field in itself. While there may be several reservoirs in a field, there shall only be one discovery well for each field. Therefore, the first well completed as a producing well in a reservoir, or which has been tested commercially, shall be deemed the discovery well of a reservoir.

**3.02** If the exploratory well of a reservoir is classified as the discovery well of said reservoir, and later, through the drilling of intermediate wells it is found that no new reservoir was discovered but rather that a proven reservoir has been extended, then this well shall be removed from the classification of discovery well, "after having been drilled," and shall be included in the classification of extension wells.

Nevertheless, full credit shall be given to said well under the classification "before drilling," since when drilling was begun, the geological conditions known at that time reflected that the risks involved were similar to those of a drilling operation aimed at the discovery of a new reservoir, and not for the extension of a reservoir previously proven.

*Venezuela*

- 3.03 If a well completed as a productive well for one or more reservoirs, be it the discovery well or any other well situated within a structure, has penetrated other potentially producing strata not tested on this same structure, then none of these potentially producing strata shall be considered as discovered until production tests have been carried out.
- 3.04 The discovery date of a reservoir, or of a well, will be the date upon which the discovery well of the reservoir or of the field has shown commercial results, or when it is completed as a petroleum producer, if no prior tests were carried out. When the well is located in the gas cap of a petroleum reservoir, it will still be considered as the discovery well for the entire reservoir, that is including both petroleum and gas.

CLASSIFICATION OF WELLS

Illustration No. 1

	Area where drilled	Classification before drilling	Classification after drilling	
			Positive results	Negative results
Illustration No. 3 To develop and extend reservoirs	Within the tested area	0 Of development	0 Of development, producing	0 Of development, dry hole
	Outside the tested area	1 Outpost	1 Of extension	1 Outpost, dry hole
Illustration No. 4 To discover new reservoirs within structures or formations already producing	Within the tested area	2 a Exploratory of upper reservoirs	2 a Discovery of upper reservoirs	2 a Exploratory of upper reservoirs, dry hole
		2 b Deep exploratory	2 b Discovery of deeper reservoirs	2 b Deep exploratory, dry hole
Outside the tested area	2 c Exploratory of new reservoirs	2 c Discovery of new reservoirs	2 c Exploratory of new reservoirs, dry hole	
To discover new fields	New areas	3 Exploratory of new field	3 Discovery of new field	3 Exploratory of new field, dry hole

*Note:* The classification "after drilling" may not correspond horizontally to the classification "before drilling" because the well initially drilled may have resulted in a dry hole and drilling was thus terminated in other reservoirs.

*Selected Documents — 1971*

SCHEDULE "C"

TECHNICAL CHARACTERISTICS OF THE SEISMIC SURVEY  
TO BE CARRIED OUT BY OCCIDENTAL PETROLEUM DE VENEZUELA S.A.  
IN BLOCKS "A," "D" AND "E" IN SOUTH LAKE MARACAIBO

Energy source: air gun.  
Recording—48 traces or channels.  
Recording until at least 5.5 seconds.  
Spacing of Shot Points for 4800 X 100 coverage.  
Digital Recording and Reprocessing.  
 $2 \times 24$  fold processing.  
Deconvolution before stack.  
DECCA position.

SCHEDULE "D"

CORPORACIÓN VENEZOLANA DEL PETRÓLEO  
SERVICE CONTRACT

BLOCK "A," "D" OR "E"

ACCOUNTING GUIDE

Caracas, July 29, 1971

ACCOUNTING GUIDELINES

GENERAL

The investments, and operating income and expenses derived from the Service Contract executed between the "CONTRACTOR" and "CVP," for the exploration and exploitation of petroleum, shall be determined following the procedures contained in this Accounting Guideline, for each of the following concepts:

- I. COST OF PRODUCTION.
- II. "CONTRACTOR's" NET PROFIT FOR PURPOSES OF DETERMINING "CVP's" ADDITIONAL PARTICIPATION.
- III. SPECIAL ADMINISTRATIVE SITUATIONS.

The "CONTRACTOR" shall use Code of Accounts and accounting systems and procedures which are compatible with those used by "CVP," in order to facilitate and permit "CVP" to review and interpret the operations of the "CONTRACTOR" and the easy

*Venezuela*

comparison and conversion of the data contained therein to the "CVP" accounting system. Accounting policies not established in this Guide and the Contract shall be as approved by the Supervisory Committee, after obtaining recommendations from the Administrative-Financial Committee. Financial reports and invoices required by "CVP" shall be presented in the formats approved by the Supervisory Committee, after obtaining recommendations of the Administrative-Financial Sub-Committee.

PART I

COST OF PRODUCTION

A. *Direct costs*

A. 1 *Expenses of direct and indirect labor and fringe benefits*

(a) *Direct labor*

The direct labor expense covers the direct labor of the payroll of the "CONTRACTOR," including among others, the following expenses incurred for: wages, salaries, rest days, travel time, overtime, night bonus, profit-sharing and corresponding bonuses for the workers occupied in operations which are carried out in relation to the exploitation of petroleum. There shall also be included in direct labor all and each of other charges necessary for this concept, including those incurred by reason of any government regulation, resolution or decree, any law or modification of existing laws, and any collective labor contract or modifications thereto.

(b) *Indirect labor and fringe benefits*

Indirect labor expenses and fringe benefits which are not charged as direct labor may include, among others, the following accrued expenses incurred for: vacations, food and housing allowance, dispensaries, hospitals, schools for laborers' children, recreation and sports, burial of workers and families, training classes for laborers, pension plans, saving plans, hospitalization and surgical benefits, collective life and accident insurance, obligatory social security, hospitalization indemnization for industrial sickness and accidents, death originating from such causes; as well as other indemnities incurred pursuant to the labor and social security laws and collective or individual employment contracts, other than the indemnities for longevity, termination and advance notice which will be charged at the time of making payment. In indirect labor and fringe benefits to the workers, there shall also be included disbursements corresponding to travel expenses for the transfer of employees from the point of origin at the time of the contract and return to the point of origin when the labor contract with the "CONTRACTOR" terminates. The "CONTRACTOR's" costs for indirect labor and well-being of workers shall be distributed as a percentage of wages and salaries chargeable for direct labor. If it should be determined by the Administrative-Financial Sub-Committee that such

percentages have resulted in insufficient or excessive charges for such indirect labor and well-being of the workers, said percentages shall be adjusted. Any adjustments due to the reasons set forth above shall be made within the period established for audits.

**A. 2 Goods, materials, equipment or machinery**

"CONTRACTOR" shall charge to the respective accounts, the cost of goods, materials, equipment or machinery to be utilized directly in the operations or installations, issued from "CONTRACTOR's" warehouses, purchased locally or obtained outside of Venezuela, subject to compliance with the legal requirements set forth in Paragraph Eleventh of Clause Tenth of the Contract. The charge for goods, materials, equipment or machinery may take into account the following elements:

**(a) Purchases in Venezuela**

The invoice price, less the discounts for cash purchases and other special discounts, plus all expenses incurred in acquisition, including any handling of transportation charges paid to the seller, plus transportation and/or storage, from the point of acquisition to the point of utilization.

**(b) Purchases outside of Venezuela**

The invoice price, less commercial and special discounts, plus purchase commissions and dispatching commissions, maritime and war insurance, transportation to the Venezuelan port of entry nearest to the warehouse, import fees and taxes and import duties, expenses related to commissions for opening and payment of letters of credit. The cost shall also include the expenses of unloading the ship, handling and transportation in and from the customs warehouse or patio or other depositories to the warehouse. Applicable purchasing and dispatch commissions paid by the "CONTRACTOR" on the purchase of goods, materials, equipment and machinery shall not exceed two and one-half percent (2.5 %) of each of the commercial invoices during the year, less the discounts which are recorded therein. The above total shall not include any extra expenses with relation to the purchases.

**(c) Valuation of goods, materials, equipment or machinery dispatched or transferred to the area of operations**

All goods, materials, equipment or machinery dispatched or transferred to the operating area of the "CONTRACTOR" from its warehouses or from any other locations, shall be accounted for in the following manner:

**1. New goods, materials, equipment or machinery:**

At 100 % of original cost.

**2. Serviceable second-hand goods, materials, equipment or machinery:**

At 65 % of original cost or book value, whichever is the lower.

**3. Reconditioned second-hand goods, materials, equipment and machinery:**

At 35 % of original cost or book value, whichever is the lower.

*Venezuela*

(d) *Valuation of goods, materials, equipment or machinery returned to stock (warehouse) or to other locations*

All goods, materials, equipment or machinery transferred from the operating area to the "CONTRACTOR's" warehouses or to other locations of the "CONTRACTOR" shall be valued in the following manner:

1. Unused, new goods, materials, equipment or machinery:

At 100 % of original cost.

2. Serviceable second-hand goods, materials, equipment or machinery:

At 65 % of original cost or book value, whichever is the lower.

3. Damaged goods, materials, equipment or machinery:

(a) If they can be reconditioned, at 35 % of original cost or book value, whichever is lower. Reconditioning costs shall be charged to Cost of Production of the exploitation area or to the cost of the asset in accordance with the capitalization policy.

(b) If they cannot be reconditioned, they shall be considered as junk.

(e) *Disposition of goods, materials, equipment or machinery*

The alienation, removal, replacement or exchange of goods, materials, equipment or machinery may be carried out with the approval of the Supervisory Committee, based upon the recommendations of the Administrative-Fiscal Committee, without prejudice to the limitations established in the Paragraph Second of Clause Fifteenth of the Contract.

A. 3 *Services rendered by equipment or installations owned by the "CONTRACTOR" or subcontracted*

(a) *Transportation*

The services rendered by third parties in transporting goods, materials, equipment or machinery and personnel shall be charged at cost. The services rendered for the same purpose with the equipment of the "CONTRACTOR," shall be charged on the basis of the costs entered in its accounting records. The costs of transportation to be charged to the operating accounts shall include, among others, the following items:

1. Movement of goods, materials, equipment or machinery from the point of warehousing or from other properties of the "CONTRACTOR," and the movement thereof from the operating area to the workshops of the "CONTRACTOR" or subcontractor.

2. Movement of recovered goods, materials, equipment or machinery from the operating area to the warehouse or points of warehousing nearest the respective area.

3. The transportation of personnel in both directions, between the pickup point for personnel and the area of operations.

(b) *Land, sea, air or automotive equipment*

While "CONTRACTOR" is engaged only in operations under this Contract, costs for use of land, sea, air or automotive equipment shall be

*Selected Documents — 1971*

accumulated in appropriate accounts and prorated only as necessary to properly reflect costs of operations and investments in the Block.

(c) *Operating equipment and installations*

Services rendered, in the operations, by equipment and installations which belong to the "CONTRACTOR" shall be charged to the operating accounts at cost. Such charges shall be recorded in the accounting records in such a manner as to permit an adequate distribution between all operations and/or capital projects served by such equipment and installations. Such costs shall be distributed based on time in service, including dismantling time, moving and mounting the equipment. These costs shall also include cost of maintenance and repair, supplies, operating labor, transportation, insurance and any other items of costs, less credits for amounts received corresponding to services rendered to third parties, including the tariffs for transportation and any other credits derived from operations. The compensation for losses or irreparable damages suffered by operating equipment and installations shall be charged to operating accounts, in accordance with book values; it being understood that such charges shall be reduced by any amounts recognized by insurers.

A. 4 *Classification of costs of operations, excluding depreciation*

Direct and indirect labor, materials and services owned by the "CONTRACTOR" or contracted for the operation and maintenance and repair applicable, among others, to the following items:

1. Surveying, under-water reconnaissance and plotting of installations on required sites.
2. Flow or pumping of wells.
3. Testing of pumping and measurement.
4. Production with gas—gas lift.
5. Services rendered on the wells:
  - (a) Repair and replacement of subsurface equipment, when there are no equipment additions.
  - (b) Well-head connections.
  - (c) Extraction of rods, tubing and all related well equipment.
  - (d) Cleaning of wells.
  - (e) Swabbing and additional testing of wells.
6. Equipment and installations in lots selected for exploitation:
  - (a) Flow stations, and their auxiliaries and accessories.
  - (b) Storage installations and handling of crude, and their auxiliaries and accessories.
  - (c) Flow lines.
  - (d) Drilling equipment.
  - (e) Auxiliary drilling equipment (cranes, barges, launches, tanks, etc.).

*Venezuela*

- (f) Pumping units.
- (g) Testing equipment.
- 7. Reactivating and reworking of wells which do not increase petroleum reserves.
- 8. Induced recovery:
  - (a) Gathering, distribution and/or injection of gas and all auxiliary equipment, derivatives and accessory equipment.
  - (b) Water flooding systems.
  - (c) Systems and plants for the conservation of gas.
- 9. Dehydration, desalination and/or treatment of crude in general, by means of electrical, chemical and physical methods.
- 10. Stabilization, reconstitution and mixture of crude and condensates.
- 11. Power, light, water steam, air and other similar industrial services.
- 12. Transportation and forwarding:
  - (a) Of material, equipment and machinery.
  - (b) Of personnel.
- 13. Transportation equipment and units.
- 14. Operating equipment and units.
- 15. Inspection and maintenance of pipelines and gaslines.
- 16. Operation and maintenance of terminals.
- 17. Other necessary equipment and installations.

**B. *Indirect costs***

**B. 1 *General costs of the fields***

The "CONTRACTOR" shall charge to the costs of production the general expenses corresponding to the field of operations, but where they are not directly applicable to these operations, said charges shall be prorated between the investments and activities served on a reasonable and equitable basis, and shall be limited to the actual costs incurred by the "CONTRACTOR." The expenses recorded in this manner shall include, among others, the following: direct and indirect labor, goods, materials, equipment and machinery, easements and rights-of-way, and services of the "CONTRACTOR" or those subcontracted for which there shall be taken into consideration the same elements of costs as in the case of direct costs, applied, among others, to the following items:

**(a) *Service installations and equipment in the field***

- 1. Workshops and/or centers of general repairs (electrical, mechanical, automotive, transport, etc.).
- 2. Highways and streets.
- 3. Systems of: drainage, sewage, water, light, electric power, gas, fire protection, communications, etc.

*Selected Documents — 1971*

4. Laboratories, including engineering, petroleum and geological.
5. Movable production and testing equipment.
6. Transportation and handling of materials, equipment and personnel.
7. Security patrols and protection.

(b) *Supervision of operations*

1. Offices in the field of operations.
2. Office equipment and supplies.
3. Transportation and handling of goods, materials, equipment or machinery and office personnel.
4. Warehouses and costs of warehouses.
5. Managers of Operations, Unit or Department Heads, Supervisors of Sections and other Operations Personnel, whose wages and salaries shall be applicable to Supervision and to Production Operations.

(c) *Well-being of workers*

B. 2 *General and administrative expenses*

The "CONTRACTOR" shall apply to the costs of production the general and administrative expenses incurred in coordinating and administering the performance of the functions of management, supervision, service and maintenance of the principal and regional offices of the "CONTRACTOR;" said costs shall be charged to the operating and maintenance activities benefited by the efforts of the functions of management and administration related thereto. Expenses of personnel directly assigned to a capital expenditure project shall be charged to such project. The expenses recorded in this manner shall include, among others, the following: direct and indirect labor, goods, materials, equipment or machinery, services of the "CONTRACTOR" or sub-contracted for which there shall be taken into consideration, the same elements of costs as for direct costs, applied, among others, to the following items:

(a) *Installations and equipment in the general and regional offices of the "CONTRACTOR"*

1. Systems of: drainage, sewage, water, gas, fire protection, light, electric power, communications, etc.
2. Transportation and forwarding of goods, materials, equipment or machinery and personnel.

(b) *General supervision*

1. General Management, other Management levels, Heads of Administrative and Service Departments, including the direct and indirect labor costs of non-management or supervisory personnel assigned to these offices.
2. Office equipment and articles.

(c) *Well-being of laborers*

*Venezuela*

**C. Policies regarding capital investments**

**C. 1 General policies**

The "CONTRACTOR" shall record separately tangible and intangible investments in wells and other producing and gathering facilities, as required for purposes of this Contract. Depreciation on the abovementioned tangible investments and amortization of intangible investments shall be calculated and charged to operations on the unit-of-production basis. Depreciation on other assets shall be calculated based on useful life and charged to operations on a straight-line basis.

**C. 2 Specific policies regarding certain important areas of operations**

The following are certain specific policies with respect to the treatment, as capital investments or operating costs of certain important activities. Procedures to be followed in other areas not specifically covered shall be established by the Supervisory Committee, after obtaining the recommendations of the Administrative-Financial Committee.

**(a) Costs of dry holes**

1. During the exploration period and prior to commencement of the exploitation period such costs shall be capitalized in accordance with Paragraph C. 4 (b) of this Accounting Guide. Exploratory dry holes during the exploitation period shall be handled in the same manner.
2. During the exploitation period, except as indicated above, such costs shall be charged to cost of production in the year in which they are determined to be dry holes.

**(b) Costs of plugbacks**

1. All costs incurred to abandon producing zones, including unsuccessful well stimulation, shall be charged to costs of production in the year in which the work is performed.
2. Costs incurred in opening new producing zones shall be capitalized.

**(c) Costs of workovers**

1. All costs incurred in repair, maintenance, swabbing, etc. of wells which do not increase proven reserves, change the depth, size of equipment, or other basic producing characteristics of the well, shall be charged to costs of production in the year the work is performed. In the contrary case, such costs shall be capitalized and amortized on the unit-of-production basis.

**(d) Repair and maintenance**

Ordinary repairs, that is those made to maintain normal working conditions of assets used in the production of income, which do not appreciably prolong the useful life or change the basic structure of such assets, shall be charged to cost of production in the year in which incurred. Extraordinary repairs, that is those made to increase the useful life or change the basic structure of assets, shall be capitalized.

**C. 3 Depreciation**

Such expenses shall be recorded directly or based on a distribution.

(a) *Costs of depreciation directly applied*

1. Of investments in production and gathering systems and installations.
2. Of investments in transportation and storage systems and installations.
3. Of investment in operating units and equipment.
4. Of investments in transportation units assigned to production operations.
5. Other assets, as required.

(b) *Costs of depreciation applicable on a basis of allocations*

(b) 1 *General field expenses*

1. Of investments in field systems and installations.
2. Of investments in transportation units and equipment not assigned directly to producing operations.
3. Of the investment in office furniture and equipment.
4. Other assets, as required.

(b) 2 *General and administrative expenses*

1. Of investments in systems and installations in general and regional offices.
2. Of investments in transportation units and equipment.
3. Of investments in office furniture and equipment.
4. Other assets, as required.

**C. 4 Amortization**

(a) *Organization expenses*

The expenses incurred in constituting and registering the Contracting Company shall be deferred and amortized during the first three years of the exploitation period.

(b) *Costs incurred during the exploration period*

Costs and investments incurred during the execution of the minimum exploratory program, including taxes, fees and contributions paid by the "CONTRACTOR" during the exploratory period, and any other additional exploratory program shall be accepted in their entirety for the Block, and charged to Cost of Production of the petroleum produced based on the unit-of-production method of amortization.

(c) *Reduction of exploitation area*

If the "CONTRACTOR," with prior approval of "CVP," reduces its area of exploitation by the exclusion of one or more of the parcels within the two lots selected, the unrecovered balance of the exploration costs capi-

*Venezuela*

talized in relation to the parcels excluded shall be amortized as a part of the Cost of production of the area within the lots which remain under exploitation.

D. *Payment to "CVP" for depletion*

The depletion payment shall form part of Cost of Production of the petroleum. The "CONTRACTOR" shall pay the depletion monthly, based on production for the month, and shall recover through the billing of costs of production the portion corresponding to the crude retained by "CVP."

E. *Costs of gathering, transportation and storage*

E. 1 *Services rendered by "CONTRACTOR's" installations and equipment*

The expenses incurred in gathering, transportation and storage operations by installations and equipment owned by the "CONTRACTOR" shall be charged to the Operating Account in such a manner as to assure that recorded costs and others subsequently approved are distributed between all of the properties served by said installations and equipment. The charges to these accounts shall include, among others, direct and indirect labor, goods, materials, equipment or machinery in accordance with the concepts indicated in points Nos. A. 1, A. 2 and A. 3, maintenance and repairs, supplies, losses of petroleum in pipelines and storage, transportation fees, insurance and other costs, less any credits for amounts received corresponding to services rendered to third parties, including those from transportation tariffs and any other credits derived from the operations.

E. 2 *Gathering, transportation and storage systems and installations*

The charges specified in point E. 1 shall be applied to the following systems, installations and equipment:

(a) Gathering, pipeline and storage systems.

1. Lateral and connecting trunk lines (lines from the flow stations to the storage stations).
2. Pumping stations.
3. Storage stations.
4. Principal and secondary pipelines.
5. Special roads (service and maintenance highways).
6. Gathering and transportation barges.
7. Testing facilities and equipment.

(b) Lighting systems.

(c) Lake and maritime port facilities.

(d) Equipment.

1. Vehicles.
2. Machinery.
3. Lake and maritime equipment.

(e) Others, as required.

**E. 3 Gathering, transportation and storage of petroleum services rendered by third parties**

The amount to be charged for these services shall be a reasonable amount or equal to that collected from other users of these services under the same conditions. The tariffs and conditions of gathering, transportation and storage services offered by the concessionaires or "CONTRACTOR's," in the case of special routes, trunk lines, lateral lines with their corresponding connections, and principal pipelines shall be submitted for the approval of the Ministry of Mines and Hydrocarbons, in accordance with the provisions of Article 37 of the Law of Hydrocarbons.

**F. Indirect costs of gathering, transportation and storage**

**F. 1 General field expenses**

The "CONTRACTOR" shall apply a proportional part of the general expenses of the area, as established in point B. 1, to the operations of gathering, transportation and storage of petroleum on the basis of the relation which said expenses bear to these operations.

**F. 2 General and administrative expenses**

The "CONTRACTOR" shall apply general and administrative expenses incurred, as provided for in point B. 2, to the operations of gathering, transportation and storage of petroleum on the basis of the relation that said expenses bear to these operations.

**G. Losses of, or damages to "CONTRACTOR's" equipment and installations**

Costs of repairs resulting from damages to the "CONTRACTOR's" equipment and installations shall be an element of cost, and the compensation for losses resulting from irreparable damages shall be charged to operations in accordance with book value of assets lost; it being understood that such charges shall be reduced by any recoveries recognized by insurers.

**H. Taxes, fees and contributions**

Taxes, fees and contributions shall be recorded on the basis of the obligations paid prior to the disposition of the petroleum produced and shall be charged to the cost of production with the exception of income taxes.

The taxes which "CONTRACTOR" shall pay to the National Treasury in the name and for the account and order of "CVP" are the following:

The tax of Two Bolivars (Bs 2.00) per year and for each hectare included in Block ("A," "D" or "E"). This tax shall be paid during the exploration phase under the Contract.

The initial exploitation tax of Eight Bolivars (Bs 8.00) for each hectare of the area of exploitation.

The surface tax for each hectare included in the area of exploitation which shall be Five Bolivars (Bs 5.00) per annum during the first ten years of the exploitation phase; Ten Bolivars (Bs 10.00) per annum during the following five years; and Fifteen Bolivars (Bs 15.00) per annum during the last five years.

*Venezuela*

The exploitation tax of sixteen and two-thirds percent (16⅔ %) of the crude oil extracted, measured in the field of production, at the installations in which the fiscalization is carried out.

The tax of sixteen and two-thirds percent (16⅔ %) of the value of natural gas utilized in "CONTRACTOR's" operations.

With the payments hereinabove set forth, "CONTRACTOR" shall have fully performed during the term of the Contract the obligations set forth in Clause Nineteen thereof. The abovementioned payments shall be made at the time indicated in the Hydrocarbons Law and Regulations thereof, and in accordance with the other provisions of said Law.

I. *Fines*

Fines paid by the "CONTRACTOR," which are not due to negligent acts or omissions of "CONTRACTOR," shall be included in Cost of Production.

J. *Distribution of Cost of Production*

Cost of Production, composed of the elements included in Part I. of this Accounting Guide, shall be distributed monthly between the parties in the same manner as established for the disposition of petroleum produced, in accordance with Paragraph First of Clause Second of the Contract between "CVP" and the "CONTRACTOR."

PART II

"CONTRACTOR's" NET PROFIT FOR PURPOSES OF "CVP's"  
ADDITIONAL PARTICIPATION

The "CONTRACTOR's" net profit shall be determined annually in the following manner:

1. To the net taxable income calculated for the corresponding fiscal year, in accordance with the Income Tax Law and Regulations thereto, based on income obtained from sales at realization prices of petroleum transferred to the "CONTRACTOR" by "CVP" during the same fiscal year, as well as any other regular or accidental income or proceeds obtained by "CONTRACTOR" in the same fiscal year, the following adjustments shall be applied:
  - (a) Venezuelan income taxes payable by the "CONTRACTOR" for the corresponding year, determined in accordance with the Law and its Regulations, shall be deducted.
  - (b) To the above determined balance shall be added all costs, if any, which do not affect "CVP" in accordance with the Contract or this Guide.
  - (c) The differences between the provisions, calculated on a net of tax effect basis, and payments for severance benefits ("antiguedad" and "cesantia") for the year, shall be deducted from the amount determined in the preceding point.
  - (d) The balance of exploitation losses incurred during the first three (3) years, which

*Selected Documents — 1971*

have not been carried forward and deducted in the manner and during the period established in the Income Tax Law in effect at the date of the Contract, shall be deducted in the two (2) years immediately succeeding the period established in said law. The deduction of the balance of said losses in the two (2) mentioned years shall be imputed in each allowed year up to the amount determined in the preceding sub-paragraph for such year.

*Sole Paragraph:* In any case and solely for the purpose of determining the additional participation of "CVP" in "CONTRACTOR's" net profits, there shall always be taken into account in the calculation of net taxable income only those deductions and costs established in the existing Income Tax Law and the Regulations thereto.

2. The amount hereby determined shall be considered the "CONTRACTOR's" net profit for purposes of "CVP's" additional participation.

The "CONTRACTOR's" net profit shall be divided by the number of barrels transferred by "CVP" to the "CONTRACTOR" during the same fiscal year to determine "CONTRACTOR's" net profit per barrel. If, based on this calculation, it is determined that "CVP" shall have additional participation, in accordance with Paragraph Third of Clause Seventeenth of the Contract, the "CONTRACTOR" shall pay "CVP" said additional participation during the month of April immediately following the close of the applicable fiscal year.

Should the Administration of the Income Tax Department make subsequent tax claims, which are upheld and deemed payable, and modify the taxable income, the "CONTRACTOR's" net income for purpose of determining "CVP's" additional participation shall be recalculated for the year to which the claims are applied.

### PART III

#### SPECIAL ADMINISTRATIVE SITUATIONS

##### A. *Judicial expenses*

The amounts paid in the defense or prosecution of law suits which involve any claim relating to the operations of the "CONTRACTOR," shall include the fees of attorneys especially contracted for such litigation, but no charges will be made for employees or legal counsel to the "CONTRACTOR," which charges shall be included in General and Administrative Expenses. Adjustments to judicial expenses shall be made by the Supervisory Committee upon recommendation of Legal Subcommittee.

##### B. *Finance charges*

Any finance charges incurred by the "CONTRACTOR" shall not be computed or deducted for purposes of determining Cost of Production or net profit referred to under Parts I and II, respectively, of this Guide.

##### C. *Services contracted outside of Venezuela*

The "CONTRACTOR" shall contract services of personnel and technical groups which are persons or judicial entities domiciled in Venezuela. Only in those cases in

### *Venezuela*

which the personnel or technical groups do not exist in the country or do not comply with normally required specifications shall they be obtained outside of Venezuela, having previously complied with the legal requirements.

#### *D. Expenses originating from unification or operating agreements*

To determine the costs corresponding to the Agreements referred to in Paragraph Ninth of Clause Tenth of the Contract, the matters established in this Guide shall be applied, where applicable.

#### *E. Billing of cost of production*

1. The "CONTRACTOR" shall present monthly to "CVP" a summary of the total Cost of Production for the preceding month and invoice "CVP" ten percent (10 %) of said cost.
2. "CVP" shall pay the invoices referred to in (1) above within the following periods:
  - (a) Sixty (60) days from the date received by "CVP," when the daily fiscalized average of said monthly production does not exceed fifty thousand (50,000) barrels; and (b) thirty (30) days from the date received by "CVP," when the daily fiscalized average of said monthly production exceeds fifty thousand (50,000) barrels.
3. When "CVP" objects to an item in the invoice, it shall be paid on the understanding that, if the difference is not resolved within thirty days after the date the objection was received by the "CONTRACTOR," "CVP" shall have the right to deduct the objected amount from the next payment due to "CONTRACTOR."
4. All invoices shall bear moratory interest at the rate of eight percent (8 %) per annum, calculated for each day in excess of the payment term hereinabove set forth. The same rate and procedure will be applied to any credits in favor of "CVP."

#### *F. Right to make audits*

"CVP" shall have the right to make a general audit in the books and other documents of "CONTRACTOR" for each year within six (6) months following the close of each fiscal period and, in addition, shall have the right to make partial audits or accounting investigations in the books and other records of "CONTRACTOR" within a period of twelve (12) months following the receipt of the invoice for each month. If, prior to the end of the period of twelve (12) months, "CONTRACTOR" should present a modified invoice the term for the audit shall be extended for an additional period of six (6) months.

#### *G. Insurance*

"CONTRACTOR" shall include in cost of production, gathering, transportation and storage the premiums incurred for contracted insurance obtained during the contract which is considered necessary or required by law to cover risks to its employees or property, such as liability to third parties, property damage, fire and any other class of risk.

*Selected Documents — 1971*

**H. "CONTRACTOR's" accounting records**

"CONTRACTOR" shall maintain its accounting records in Bolivars. Transactions in foreign currencies shall be converted to Bolivars at the official rate of exchange for the petroleum industry at the time of the transaction.

**I. Operations with third parties in Venezuela**

In all cases where the "CONTRACTOR" realizes operations with third parties, the income and costs of such operations shall be applied to Costs of Production.

**J. Review of investments**

When the plans, programs and budget corresponding to the thirteenth year of the exploitation period are discussed, in accordance with Paragraph Fifth of Clause Tenth of the Contract, the Supervisory Committee shall review the depreciation and amortization of capital investments made by the "CONTRACTOR" through the end of the twelfth year of said period. If it is established that said investments shall not be completely recovered during the remaining period of the contract, adjustments shall be made, as required, to recover them in a proportional manner, during the remaining period of the Contract. At the same time, applicable dispositions shall be adopted for investments during the remaining period of the Contract.

In all cases, adjustments must be approved by the Supervisory Committee and shall be considered only for purposes of calculation of Cost of Production and determination of net income for purposes of "CVP's" additional participation.

Caracas, May 22, 1971.

**SERVICE CONTRACT  
BLOCK "B"**

Between CORPORACION VENEZOLANA DEL PETROLEO, a National Undertaking, created by Executive Decree No. 260 of 19th April 1960, published in Official Gazette No. 26.234 dated 22nd April 1960, at this act represented by Dr. Maurice Valery N., a lawyer, of age, married, holder of identity card No. 286.580, in his capacity as Director General, appointed by the Directive Council on 7th September 1970, in accordance with letter (d) of Article 8 of the Statute governing Corporación Venezolana del Petróleo and expressly authorized by its Directive Council, as evidenced by Point 2, Minutes No. 165, dated 4th May 1971, and by the Executive Board as evidenced by the Sole Point of Minutes No. 574, dated 26th July 1971 and by the National Executive

*Venezuela*

as evidenced by letter No. 1607 dated 26th July 1971, hereinafter referred to as "CVP," on the one hand; and on the other, the undertaking SHELL SUR DEL LAGO C.A., a corporation of this domicile, registered before the Mercantile Registrar of the Judicial Jurisdiction of the Federal District and Miranda State, on 1st June 1971 under No. 62 of Volume 40-A, hereinafter referred to as "CONTRACTOR," at this act represented by José Rafael Domínguez, a geologist, of age, married, holder of identity card No. 89.916, in his capacity as President of "CONTRACTOR" and sufficiently authorized for this act by resolution of the Board of Directors dated 26th July 1971, as evidenced by the certified minutes attached hereto, it has been agreed to enter into, in accordance with the current Law of Hydrocarbons and with the Contracting Basis approved by the National Congress, the Service Contract, the terms and conditions of which are contained in the following clauses:

CLAUSE ONE

DEFINITIONS

The definitions hereinafter set forth shall have the scope herein determined to the effects of the interpretation of this Contract, except when otherwise provided expressly in the text of this Contract.

*Contract or Agreement:* Used indistinctly, means this instrument and the other attached documents which form an integral part of same.

*Block:* Means the area of fifty thousand (50,000) hectares, as determined in Appendix "A" of this Contract, divided in ten (10) lots of five thousand (5,000) hectares each one, which area is identified in Clause Three of this contract.

*Lot:* Means each one of the parts into which the Block is divided and which has an area of five thousand (5,000) hectares.

*Parcel:* Means each one of the parts of five hundred (500) hectares in which each lot is divided.

*Original Area:* Means the Block considered as the object of the exploration stipulated in this Contract.

*Exploitation Area:* Means the area resulting from the alternate selection, made by "CONTRACTOR" and "CVP" on the original area, in the manner provided in this Contract, which shall be formed by the two (2) lots selected by "CONTRACTOR."

*Petroleum:* Means crude petroleum, natural asphalt, all the hydrocarbons which are in a liquid phase in their natural state and the condensate.

*Associated Natural Gas:* Means the hydrocarbons which are in a gaseous phase under normal separation conditions.

*Normal Separation Conditions:* Means the characteristics of the methods employed for the separation of the gas found associated with the petroleum, utilizing separators accepted for the industry with this purpose by the Ministry of Mines and Hydrocarbons. The methods here mentioned are those known and accepted in the industry as separation in one or more stages and at low temperature, but only when the latter is produced as an inherent consequence of the separation method itself and in no case as a result of

*Selected Documents — 1971*

the application of a process, system, mechanism or installation destined to the cooling of the separated gas.

*Condensate:* Means the petroleum which is obtained in a liquid form under normal separation conditions, but which is characterised because it is found in a gaseous state under the original conditions of the reservoir and because it is not obtained through the process of absorption, adsorption, compression, refrigeration or by a combination of such processes.

*Free Natural Gas Reservoir:* Means the reservoirs containing exclusively natural gas. Furthermore, any reservoir the condensate yield of which is so low that recycling would be uneconomical, is considered a free gas reservoir.

*Exploratory Well:* Means a well drilled for purposes of exploration of the Block, in a location where it is expected to find production in reservoirs which up to that moment have not been proved as productive and included within the classification of exploratory wells, established by the Ministry of Mines and Hydrocarbons, the text of which is attached herewith as Appendix "B" of this Contract.

*Barrel:* Means a volume of 158.984 litres at a temperature of 15.56° C (60° F) and at one (1) atmosphere of pressure.

*Minimum Exploratory Programme:* Means the exploratory programme that "CONTRACTOR" agrees to carry out in accordance with the provision of Clause 6 of this Contract.

*Party:* Means "CONTRACTOR" or "CVP" and parties means "CONTRACTOR" and "CVP."

*Commercial Production:* Means the production determined as provided in Clause Seven of this Agreement.

*Net Profit of "CONTRACTOR":* Means the amount resulting from applying to the taxable net income of "CONTRACTOR," the adjustments established in the Accounting Guide attached to the present Contract. The taxable net income will be calculated at the end of the corresponding fiscal period, in accordance with the Income Tax Law and its Regulations and the provisions of the Accounting Guide, on the basis of the income obtained from the sale, at realization prices, of the petroleum assigned by "CVP" to "CONTRACTOR."

*Net Profit of "CONTRACTOR" per Barrel:* Means the amount resulting from dividing the net profit of "CONTRACTOR" by the total number of barrels of petroleum assigned by "CVP" during the same fiscal period.

## CLAUSE TWO

### OBJECT OF THE CONTRACT

"CONTRACTOR" shall carry out by its own means and for its exclusive account and risk, but in the name and representation of "CVP," the following activities:

(a) Totally explore Block "B," in accordance with the Minimum Exploratory Programme as provided in Clause Six of this Contract;

*Venezuela*

- (b) Exploit the recoverable petroleum in the exploitation area; and
- (c) Transport to the delivery point and store the petroleum produced.

“CONTRACTOR” in its own name, shall sell and place in the international markets the petroleum received from “CVP.”

*Paragraph One*

*Disposal of the Petroleum Produced*

“CONTRACTOR” shall extract the recoverable petroleum delivering it to “CVP” after deducting the corresponding amounts as provided in Paragraph Two. “CVP,” in turn, shall assign to “CONTRACTOR” the ninety percent (90 %) of the amount of each grade of petroleum received. “CONTRACTOR” shall sell all the petroleum received, in the international markets. “CVP” shall retain ten percent (10 %) of the amount of each grade of petroleum received and shall reimburse “CONTRACTOR” the ten percent (10 %) of the production cost up to the delivery point provided in Paragraph Three of this Clause.

The production cost shall be constituted, among others, of the following items:

1. Amortization and depreciation of the investments made;
2. The taxes, contributions and other fiscal obligations established in the Hydrocarbon’s Law and other fees and contributions, including Municipal Taxes in respect of the activities of the “CONTRACTOR,” paid by the latter before the disposal of the petroleum;
3. Operating and maintenance expenses; and
4. General and administrative expenses.

These costs shall be determined on the basis of the procedure indicated in the attached Accounting Guide which, signed by the parties, forms an integral part of this Contract.

*Paragraph Two*

*Usage of Petroleum in Operations and Payment of the Exploitation Tax in kind*

“CONTRACTOR” may utilize in its operations, such as well stimulation, the petroleum indispensable to such operations. The Supervisory Committee may regulate such utilization. The amounts of petroleum so utilized shall be deducted from the total production before its delivery to “CVP.”

The quantities delivered in kind by “CONTRACTOR” to the National Executive for Exploitation Tax, if that were the case, as provided in Clause 19 of this Contract, shall likewise be deducted from the total production before its delivery by “CONTRACTOR” to “CVP.”

*Paragraph Three*

*Place of Delivery of the Petroleum to “CONTRACTOR”*

As provided in Paragraph One of this Clause and in consideration of the services rendered by „CONTRACTOR” under this Contract, “CVP” shall assign the corresponding petroleum to “CONTRACTOR” at the outlet of the flange connecting the hose of the loading terminal with the connecting flange of the tanker. Notwithstanding, any losses occurring before the delivery and the transportation, storage and

*Selected Documents — 1971*

loading costs, shall be proportionally shared by both Parties on the basis of the percentage of participation in the petroleum produced.

*Paragraph Four*

*Procedure for the Lifting of the Petroleum Produced*

The Parties agree to lift their corresponding petroleum in due time, as provided in this Clause and in accordance with the programme that the Supervisory Committee may agree for this purpose. When one of the Parties does not lift the corresponding volume of petroleum in due time and when this happens under circumstances that the Supervisory Committee may deem proper, so that neither the normal development of operations, nor the short, medium and long term marketing programmes of each Party become unduly affected, the Committee may authorize the other Party to lift under the conditions and according to the accounting procedures that it may establish.

*Paragraph Five*

*Disposal of the Natural Gas Produced*

*Associated Natural Gas*

"CONTRACTOR" may utilize the gas produced associated with the petroleum as it may require for its production operations or conservation programmes, and shall deliver all excess gas to "CVP" without cost at the outlet of the separators. "CVP" may extract from the associated gas at its own expenses the condensable liquids, including the gas that might be used by "CONTRACTOR" for the indicated purposes.

"CVP" shall dispose of the associated natural gas in accordance with existing laws and regulations and with those that competent bodies may dictate in future, so that "CONTRACTOR" may fulfill the production programmes as approved by the Supervisory Committee.

*Condensate*

Condensate reservoirs shall be subject to recycling for their exploitation. Condensate reservoirs shall be considered as free gas when the production of liquid is uneconomical.

*Free Natural Gas*

"CONTRACTOR," by virtue of this Contract, shall have no right whatsoever to exploit the free gas reservoirs that may be discovered.

*Paragraph Six*

*Special Agreements for the Utilization of Gas*

"CVP," when it so deems convenient, may enter into special agreements with "CONTRACTOR" or with third parties, for the utilization of the free or associated natural gas, without prejudice to the legal provisions on this matter.

Should "CVP" decide to enter into special agreements for the utilization of the free or associated natural gas and "CONTRACTOR" had made an offer for this purpose, "CVP" shall give it preferential consideration, provided the terms and conditions offered by "CONTRACTOR" were equal or better than those of the other offers received.

*Venezuela*

**CLAUSE THREE**

**IDENTIFICATION OF BLOCK "B"**

The area object of this Contract, consists of a Block called "B" with an extension of fifty thousand (50,000) hectares which includes ten (10) lots of five thousand (5,000) hectares each; sub-divided into parcels of five hundred (500) hectares each.

The indicated Block "B" is located in South Lake Maracaibo, Zulia State, Venezuela, which is identified as follows: Going from a point having as coordinates S-121,976.98 and O-19,283.25, one measures 20,000 metres due East up to a point having as coordinates S-121,976.98 and E-716.75; from there one measures 20,000 metres due South up to a point having as coordinates S-141,976.98 and E-716.75; from there one measures 10,000 metres due West up to a point having as coordinates S-141,976.98 and O-9,293.25; from there one measures 10,000 metres due South up to a point having as coordinates S-151,976.98 and O-9,283.25; from there one measures 10,000 metres due West up to a point having as coordinates S-151,976.98 and O-19,283.25; from there one measures 30,000 metres due North up to a point having as coordinates S-121,976.98 and O-19,283.25, which is the vertex of origin of Block "B." The origin of the coordinates is the Cathedral of Maracaibo 0-0.

The form, orientation and location of the lots and parcels integrating Block "B", are indicated in Appendix "C" to this Contract.

**CLAUSE FOUR**

**DURATION OF THE CONTRACT**

The present Contract shall cover a maximum exploratory period of three (3) years from the date of its execution, and an exploitation period of twenty (20) years beginning on the termination of the exploratory period or on the date in the exploratory period on which early exploitation may be started, as provided in Paragraph Four of Clause Six of this Contract.

**CLAUSE FIVE**

**EXPLORATORY STAGE**

"CONTRACTOR" shall carry out, during the first three (3) years of this Contract, all activities provided in Clause Six, related to the exploration of the area of the contracted Block, in search of petroleum by means of geological and geophysical investigations, well drilling and any other operations in accordance with practices and techniques accepted by the petroleum industry for exploration, in order to fully explore the area and evaluate the existing structural or stratigraphic traps.

CLAUSE SIX

MINIMUM EXPLORATORY PROGRAMME

The Exploratory Programme that "CONTRACTOR" undertakes to carry out, consists of:

- (a) a seismic survey covering eight hundred (800) kilometres of seismic lines; and
- (b) the drilling of five (5) exploratory wells. These wells shall reach such depths as may permit to evaluate the sands of Eocene and penetrate the Guasare formation in the Paleocene.

In order to carry out the Minimum Exploratory Programme one shall proceed as follows:

1. The project of a seismographic survey and its technical characteristics, as approved by the Parties previously to the executing of this Contract, is attached herewith as Appendix "D," and forms an integral part of same.
2. "CONTRACTOR" shall progressively supply "CVP" the basic data to be received from such survey. Within ninety (90) days after receipt of all basic data, the Coordinating Committee will convene a meeting, at which each Party will present a map with the prospects and recommended location for the wells to be drilled. Should both Parties coincide in locating a well within the same structure, there shall be agreement on the location of the well in question.
3. "CONTRACTOR" shall begin as soon as possible with the drilling of the wells in the locations agreed by the Coordinating Committee at said meeting.
4. In case of disagreement in relation to the location of some of the wells to be drilled, each Party shall revise its own interpretation on the basis of the data supplied by the other Party and of the data supplied by the wells being drilled or already drilled.
5. At the time at which drilling of the last agreed well is started, the Coordinating Committee will convene another meeting for the purpose of approving the location of the wells that remain to be drilled.
6. Should no agreement be reached on the location of one or more wells pending to be drilled, "CONTRACTOR" will select the first location. Then "CVP" will select the following location, and so on, until the drilling of the number of wells anticipated in the Minimum Exploratory Programme for the Block has been finished. Each one of the Parties should make the selection mentioned herein sufficiently in advance so as to avoid interruptions in the well drilling programme and an increase in costs.

"CONTRACTOR" shall proceed with the taking of bids for the seismic survey and for the drilling and completion of wells and with the selection of the undertakings that shall execute such works on the basis of the conditions that it may consider applicable. A similar procedure will be followed in respect of any exploratory programme additional to the minimum herein agreed.

## *Venezuela*

Should "CONTRACTOR" decide to carry out such works directly, it shall do so on a competitive basis and to this effect it shall previously solicit quotations from specialised undertakings.

With the results of the bidding or tenders "CONTRACTOR" shall prepare a detailed budget for the exploratory programme, adding to the costs of the works subject to bidding or tenders, the direct or indirect costs which are determined in the attached Accounting Guide. This detailed budget will be submitted for the approval of the Coordinating Committee, at least fifteen (15) days prior to the date fixed for the beginning of operations.

### *Paragraph One*

#### *Discontinuation of the Minimum Exploratory Programme*

"CONTRACTOR," with the prior authorization of "CVP," may discontinue the Minimum Exploratory Programme, if during its execution it considers that the conditions of the subsoil in the area do not permit the expectation of a reasonable opportunity to discover accumulations of petroleum in commercial quantities, in which case it shall pay "CVP" fifty percent (50 %) of the investments required to complete the Minimum Exploratory Programme and the Contract shall be terminated.

Nevertheless, after "CONTRACTOR" shall have discovered petroleum in commercial quantities and if the information obtained did not warrant the continuation of the Minimum Exploratory Programme, "CONTRACTOR," after having received the approval of "CVP," may discontinue it, in which case it shall pay "CVP" an amount necessary to complete the said programme on the basis of the actual cost of the work already executed, but the Contract shall not be terminated.

The calculation of the abovementioned investments shall be based on the budget to this effect approved by the Coordinating Committee and which shall be adjusted on the basis of the actual costs of the surveys already made and of the wells already drilled, making the necessary deductions to such actual costs, in order to take into account any extraordinary expenses incurred as a consequence of abnormal conditions, in the judgement of the Coordinating Committee.

The investments so calculated shall be used in the determination of the abovementioned indemnities to be received by "CVP" as a consequence of the discontinuation of the Minimum Exploratory Programme.

### *Paragraph Two*

#### *Beginning and Continuity of Operations*

"CONTRACTOR" shall initiate the Minimum Exploratory Programme within six (6) months following the execution of this Contract, and shall carry it out without interruption. It shall not be considered an interruption the period in which "CONTRACTOR" may suspend field operations to carry out works in processing or interpretation of data or studies, during a prudential period of time in the judgement of the Coordinating Committee. Neither shall be considered an interruption the time elapsed in obtaining permits or authorizations from competent authorities in relation to the operations, or in awaiting decisions from the Coordinating Committee. Any other

*Selected Documents — 1971*

suspension of the Minimum Exploratory Programme that is not covered within the concepts expressed in this Paragraph or not due to fortuitous event or force majeure, shall be considered an interruption of said programme.

*Paragraph Three*

*Penalty for not Initiating the Minimum Exploratory Programme or for Interrupting Same*

If "CONTRACTOR" has not initiated the Minimum Exploratory Programme within the abovementioned period, or if it has interrupted it for a period of thirty (30) consecutive days, "CVP" shall be entitled to rescind this Contract at the end of the abovementioned terms and in both cases "CONTRACTOR" shall pay "CVP," as compensation, the amount of the investments necessary to carry out or complete, as the case may be, the agreed Minimum Exploratory Programme. If "CONTRACTOR" has not initiated the Minimum Exploratory Programme within the abovementioned period, the amount of the indicated investments shall be determined on the basis of the budget approved by the Coordinating Committee for such purpose.

If the operations were interrupted, the amount of the indemnity shall be calculated on the same basis provided in Paragraph One of this Clause.

*Paragraph Four*

*Selection and Early Exploitation*

- (a) "CONTRACTOR" may, at any time during the exploitation period, if it has determined commercial production in any one of the lots forming the Block, select this first lot for its exploitation, thus beginning the early exploitation and the twenty (20) year exploitation period shall begin on the date on which such selection is made. "CONTRACTOR" shall continue the Minimum Exploratory Programme planned for all the Block as provided in this Clause.
- (b) If "CONTRACTOR" has not made the aforementioned selection and having completed the Minimum Exploratory Programme with sufficient anticipation to the expiry of the three (3) years of the exploratory period, and provided "CONTRACTOR" has determined commercial production, the Parties shall proceed with the alternate selection in accordance with the procedure provided in Paragraph One of Clause Eight of this Contract, thus starting the early exploitation and the twenty (20) years of the exploitation period shall begin on the date on which "CONTRACTOR" selects its first lot.

*Paragraph Five*

*Additional Programmes*

During the exploratory period "CONTRACTOR" may carry out additional exploration programmes to evaluate other traps in the "CONTRACTOR" Block, as well as drilling programmes of outpost wells and detailed seismic surveys, with the view of obtaining a more precise delimitation of the discovered reservoirs. Such additional programmes must be considered and approved by the Coordinating Committee.

*Venezuela*

*Paragraph Six*

*Termination of the Contract at the Expiry of the Exploratory Period and Penalty in Case of Non-compliance with the Minimum Exploratory Programme*

If at the end of the three (3) years of the exploratory period, "CONTRACTOR" has not determined any commercial production, this Contract shall be rescinded. Should that period have elapsed without "CONTRACTOR" having totally complied with the Minimum Exploratory Programme, "CONTRACTOR" shall pay "CVP" the sum necessary to terminate such programmes on the basis of the actual costs of the portion already executed, the calculation of which shall be made as provided in Paragraph One of this Clause; and without prejudice of the faculty that "CVP" has to rescind this Contract.

*Paragraph Seven*

*Production Tests*

"CONTRACTOR" may, at any time during the exploratory stage, carry out well production tests. "CVP" shall dispose of the petroleum or tars produced in such a way that the aforementioned tests shall not be interrupted. Nevertheless, should "CVP" not dispose of same, "CONTRACTOR" may do so by previous agreement with "CVP." "CONTRACTOR" shall not be obliged to produce petroleum during any test for more than thirty (30) days, consecutive or not.

**CLAUSE SEVEN**

**DETERMINATION OF COMMERCIAL PRODUCTION**

"CONTRACTOR" shall determine if petroleum in commercial quantities has been discovered at any time and in any lot during the exploratory period.

*Paragraph One*

*When it shall be determined:*

Commercial production shall have been determined when the estimated recoverable reserves in the exploitation area to be selected by "CONTRACTOR," are such that they permit reasonably to carry out an economic forecast of the exploitation programme.

*Paragraph Two*

*How it shall be determined:*

In order to make such economic forecast, the sales income at applicable realization prices shall be calculated. From the year to year income, the costs of exploration, development, exploitation, taxes, participations and other applicable expenses, in accordance with the Accounting Guide mentioned in Clause Two of this Contract, shall be deducted. To the series of net profits thus obtained, the corresponding annual depreciation and amortization shall be added. This series of cash flows shall be adjusted against the investments made year to year, to obtain a series of Adjusted Flows, to which a discount rate of no less than ten percent (10 %) and not higher than fifteen percent (15 %) that "CONTRACTOR" shall propose, shall be applied, unless the

Parties agree to another reasonable discount rate, as from the moment in which the first income from sales of petroleum from the area is estimated. If the result of the algebraic sum of the discounted values was zero or a positive quantity, it shall be considered that commercial production has been determined.

## CLAUSE EIGHT

### ALTERNATE SELECTION OF THE EXPLOITATION AREA

At the end of the three (3) years of the exploratory period and upon completion of the Minimum Exploratory Programme, provided "CONTRACTOR" has determined commercial production during such period, in one or several of the lots forming the explored Block, the Parties shall proceed to the choice of the exploitation area by means of the alternate selection of lots until an area of not more than twenty percent (20 %) of the Block has been reached. To this effect, "CONTRACTOR" shall select a first lot within the seventh (7th) day following the expiry of the exploratory period. Within a period of seven (7) calendar days from the date on which "CONTRACTOR" had selected the first lot, "CVP" shall select another lot and then "CONTRACTOR" shall select a second lot within the seven (7) days following the date on which "CVP" had made the selection of its lot.

The exploitation area of this Contract shall be the one formed by the two (2) lots selected by "CONTRACTOR."

#### *Paragraph One*

##### *Early Alternate Selection*

Should the Minimum Exploratory Programme have been completed before the three (3) years and provided "CONTRACTOR" has determined commercial production, the alternate selection shall be carried out as follows: "CONTRACTOR" shall select its first lot within the three (3) months following the termination or abandonment of the last well provided for in the Minimum Exploratory Programme. "CVP" shall select its lot within the seven (7) days following the date on which "CONTRACTOR" had selected the first lot and "CONTRACTOR" shall select its second lot within the following seven (7) days following the date on which "CVP" had made the selection of its lot.

#### *Paragraph Two*

##### *Alternate Selection of the Second and Third Lots*

In case "CONTRACTOR" should have made the selection of the lot referred to in literal (a) of Paragraph Four of Clause Six of this Contract, it will be up to "CVP" to make the selection of another lot within the three (3) months following the expiry date of the Minimum Exploratory Programme by "CONTRACTOR," or within seven (7) days following the end of the exploratory period, whichever happens first. "CONTRACTOR" shall select its second lot within the seven (7) days following the date on which "CVP" had made the selection of its lot.

## *Venezuela*

### *Paragraph Three*

#### *Period in which to make the Alternate Selection:*

It is understood that the period established in this Clause shall be completed in any case within the three (3) years of the exploratory period and the twenty-one (21) days immediately following. Without prejudice of all the rights and actions that each Party has or may have by virtue of this Contract and the Law, the lack of compliance by any of the Parties of the obligation to select the corresponding lots within the period above established, shall entitle the other Party to receive the amount of One Hundred Thousand Dollars of the United States of America (U.S. \$100,000) for each day of delay in making the selection within the aforementioned periods.

### *Paragraph Four*

#### *Reduction of the Exploitation Area*

“CONTRACTOR” may, with the prior approval of “CVP,” reduce the exploitation area by excluding one or more of the five hundred (500) hectares parcels into which each of the selected lots is divided, as provided in Appendix “C” of this Contract. Consequently, the corresponding adjustment to the plans shall be made and the area thus affected shall no longer be subject to the provisions of this Contract.

## CLAUSE NINE

### EXPLOITATION STAGE

Once the selection has been made by “CONTRACTOR” and the exploitation period has begun as provided in Clause Four and in Paragraph Four of Clause Six of this Contract, “CONTRACTOR” shall start the activities of exploitation of the petroleum discovered in accordance with the development programmes to such effect determined by the Supervisory Committee, and once the required production facilities have been filled, it shall start production, in accordance with the annual production programme determined by the Supervisory Committee, taking into consideration the characteristics of the reservoirs, the applicable conservation norms, the recoverable reserves, the capacity of the existing production installations and the market conditions. “CONTRACTOR” shall carry out these activities in the most economical and efficient manner in accordance with the usual oil industry practices.

## CLAUSE TEN

### “CVP’s” OPERATIVE PARTICIPATION

In the elaboration, execution and supervision of the plans, programmes and budgets required for the development, “CVP” shall have ample operative participation, which shall be exercised through the functioning of committees and sub-committees integrated by representatives of “CVP” and “CONTRACTOR” in equal numbers.

*Paragraph One*

*Committees and Sub-Committees*

A Coordinating Committee and a High Level Supervisory Committee as well as a Technical, a Marketing of Petroleum and Derivatives, an Administrative-Financial and a Legal Sub-Committee are created, which shall have the attributions established in this Contract. The decisions of the Coordinating Committee and of the High Level Supervisory Committee shall be binding upon "CONTRACTOR" as well as "CVP."

*Paragraph Two*

*Coordinating Committee*

*Integration:* The Coordinating Committee shall exercise its functions during the exploration stage and shall be integrated by two "CVP" representatives and two "CONTRACTOR" representatives, with their respective alternates.

*First Meeting:* The Coordinating Committee shall meet in Caracas or in any other place agreed upon by the Parties for such purpose, within the thirty (30) days following the signing of the present Contract.

*Functions:* The Coordinating Committee shall have, amongst others, the following attributions:

1. To coordinate and supervise the progress and fulfillment of the exploratory programme.
2. To approve the budget for the Minimum Exploratory Programme.
3. To approve the location of the wells to be drilled, as determined in the Minimum Exploratory Programme, in the manner provided in Clause Six.
4. To consider, approve or reform the additional exploration and outpost programmes proposed by "CONTRACTOR."
5. To know the pertinent data and the evaluation and analysis presented by "CONTRACTOR" when the latter declares that it has determined commercial production and to resolve whether commercial production has in fact been determined and if the exploitation stage should be initiated.

*Advisory or Work Groups:* The Coordinating Committee may utilize Advisory or Work Groups as it may consider convenient to carry out the analysis and technical evaluation of the approved programme, and it shall assign to them the duties and functions it may deem appropriate for the fulfillment of their mission.

The decisions taken by these groups shall have the character of recommendations and shall not be binding upon the Parties.

*Paragraph Three*

*High Level Supervisory Committee*

*Integration:* The Supervisory Committee shall exercise its functions during the exploitation stage and shall be integrated by two "CVP" representatives and two "CONTRACTOR" representatives with their respective alternates.

*First Meeting:* The Supervisory Committee shall meet in Caracas, within the fifteen (15) days following the date of the selection by "CONTRACTOR" of its first lot, for

*Venezuela*

the purpose of considering and approving or amending the annual operations programme and the expense and capital budgets of the current civil year and those corresponding to the following years. "CONTRACTOR" shall also present the financial forecast for those years.

*Annual Meeting:* The Supervisory Committee shall meet in Caracas or in any other place agreed upon by the Parties to this effect, not later than the seventh (7th) of July of each year, to initiate the consideration of the annual operations programme and the tentative expenses and capital budgets.

*Functions:* The Supervisory Committee shall have, amongst others, the following functions:

1. To assign to the Sub-Committees the functions and duties that it may deem necessary.
2. To resolve any divergencies that may arise within the Sub-Committees.
3. To review, approve, modify or disapprove the plans, programmes and budgets of exploration other than those pertaining to the Coordinating Committee; and those of exploitation, production, marketing and any other which shall be submitted for its consideration by the respective Sub-Committees.
4. To review semi-annually or whenever it may deem necessary those plans, programmes and budgets in order to make the pertinent adjustments and modifications, as well as the execution of those plans, programmes and budgets directly or through the respective Sub-Committees.
5. To review semi-annually, approve, modify or disapprove the annual production programme which shall include amongst other elements, the level of annual production determined on the basis of their remaining reserves approved by the Ministry of Mines and Hydrocarbons, the characteristics of the reservoirs, the applicable conservation norms, the capacity of the existing production installation, and the market conditions.
6. Approve the annual programme of "CONTRACTOR," which shall include the annual operations programme and the expenses and capital budgets.
7. To know the annual financial forecast presented by "CONTRACTOR."
8. To approve semi-annually the hydrocarbons reserves submitted to it by the Technical Sub-Committee.
9. To know annually the financial statements of "CONTRACTOR."
10. To recommend the implementation of the safety measures necessary for the protection of persons and installations.
11. To approve a secondary recovery programme that may be necessary for the optimum recovery of crude from the exploited reservoirs, on the basis of the operations programme.
12. To approve the granting of bids as well as the agreements on unification, operations and subcontracting.
13. To approve the "Dry Hole" Agreement with other companies.

*Selected Documents — 1971*

14. To approve the conditions and the accounting and operational procedures in accordance with the programmes established for the lifting by the Parties of their corresponding petroleum in accordance with the provisions of Paragraph Four of Clause Two of this Contract.

*Paragraph Four*

*Sub-Committees*

*Technical Sub-Committee*

*Composition:* The Technical Sub-Committee shall be composed of three "CVP" representatives and three "CONTRACTOR" representatives and their respective alternates.

*Functions:* In addition to the functions and duties that may be assigned to it by the High Level Supervisory Committee, the Technical Sub-Committee shall have the following fundamental attributions:

1. To consider, reform or approve the development, exploitation and production programmes and budgets and to supervise their execution.
2. To approve the location of exploration, development and outpost wells.
3. To approve the well drilling, completion, reconditioning and abandonment programmes.
4. To recommend the general conditions for the taking of bids for the drilling of exploration, outpost or development wells or for reconditioning or abandonment work.
5. To approve the use of contracted equipment in the drilling, reconditioning and abandonment operations.
6. To approve the maximum efficient production rates by well and by reservoir.
7. To approve the well testing programme and methods.
8. To approve the project for crude production, treatment, recollection, storage and transportation facilities included in the operations programme.
9. To approve the secondary recovery projects.
10. To consider at least twice a year the applicable factors for the estimation of the remaining reserves.
11. To approve the most efficient artificial lift method for the contracted area.
12. To approve a frequency of bottom hole pressure programmes and the number of the required wells.
13. To approve the models of the reports necessary to carry out an adequate control of operations.

*Petroleum and Derivatives Marketing Sub-Committee*

*Composition:* The Marketing Sub-Committee shall be composed of two "CVP" representatives and two "CONTRACTOR" representatives and their respective alternates.

*First Meeting:* The first meeting of the Petroleum and Derivatives Marketing Sub-Committee shall take place within thirty (30) days following the selection by "CONTRACTOR" of the first lot, and at said meeting the date shall be determined at which "CONTRACTOR" shall present a general report of its market and export prices.

### *Venezuela*

*Functions:* In addition to the functions and duties assigned to it by the Supervisory Committee, the Petroleum and Derivatives Marketing Sub-Committee shall have the following fundamental attributions:

1. To consider, reform or approve the marketing programmes, taking into account for the fixation of the sales prices, the current commercial practices, fiscal laws and the norms and recommendations of the Coordinating Commission for the Conservation and Trade of Hydrocarbons, and to supervise the execution of such programmes.
2. To analyse and approve jointly with the Technical Sub-Committee the production programme presented annually by "CONTRACTOR," taking into account the export prices and the crude and products markets.
3. To verify monthly the destination and price of the petroleum and products exports as provided and approved in the programmes.
4. To analyse and approve the information presented by "CONTRACTOR" in relation to prices, volumes, destination and extension of new offers on specific sales, as well as on sales pending final approval.
5. To recommend to the Supervisory Committee the norms and procedures applicable to export sales to which Paragraph Two of Clause Eleven hereunder refers.

### *Administrative-Financial Sub-Committee*

*Composition:* The Administrative-Financial Sub-Committee shall be composed of two "CVP" representatives and two "CONTRACTOR" representatives and their respective alternates.

*Functions:* In addition to the functions and duties assigned to it by the Supervisory Committee, the Administrative-Financial Sub-Committee shall have the following fundamental attributions:

1. To consider, reform or approve the administration programmes and to supervise their execution.
2. To analyze the financial forecast showing the uses and needs of "CONTRACTOR" funds to cover the programmes, as well as the additional requirements that may arise in view of modifications made to said programmes during the execution of the budget.
3. To recommend and coordinate the elaboration and structuring of the programming and budget system, capable of allowing an additional control in each one of the programmes and budgets approved by the Supervisory Committee. This system must be structured in such a way as to produce a continuous and comparative information on "CONTRACTOR's" activity to be used by the Supervisory Committee for decision taking.
4. To supervise and verify the production costs of crude petroleum retained by "CVP," with respect to the amount built by "CONTRACTOR" and of the petroleum transferred to "CONTRACTOR" by "CVP" in order to determine the net profit per barrel of such petroleum, and to approve the elements of such costs not provided for in the Accounting Guide.

5. To approve the systems, methods and procedures to be used by "CONTRACTOR."
6. To receive from "CONTRACTOR" an analysis of the economic and financial situation of the undertakings taking part in biddings in order to know their financial and economic backing.

*Legal Sub-Committee*

*Composition:* The Legal Sub-Committee shall be composed of one "CVP" representative and one "CONTRACTOR" representative and their respective alternates.

*Functions:* In addition to the functions and duties assigned to it by the Supervisory Committee, the Legal Sub-Committee shall have the attribution to advise the Committees and Sub-Committees on legal matters.

*Provisions Commonly Applicable to Committees and Sub-Committees*

1. *Designation of representatives:* Each Party shall notify the other Party, in writing, of the name of the persons designated as principal representatives, together with the names of their alternates. Each Party shall have the right to substitute its principal or alternative representatives at any time by notifying the other Party in writing.
2. *Observers and Advisors:* Observers and advisors of either one of the Parties may attend the meetings of the Committees and Sub-Committees, upon notification of the interested Party.
3. *Meetings:* The Committees and Sub-Committees shall convene monthly in Caracas or in any other place the Parties may agree to this effect, and may call extraordinary meetings when either of the Parties so requests it. The ordinary and extraordinary meetings of the Committees and Sub-Committees shall be called with at least five (5) working days prior notice, except in emergency cases, and with the inclusion of the corresponding agenda.
4. *Decisions of the Sub-Committees:* The decisions of the Sub-Committees shall have the character of recommendations for the Supervisory Committee, but shall be mandatory to the Parties, if such decisions were not modified by said Supervisory Committee.
5. *Quorum:* In order to have a quorum in the Committees and Sub-Committees meetings, at least one principal or alternate representative of each Party must be present. All the decisions of the Committees and Sub-Committees shall be taken unanimously. If there is no quorum, a second call shall be made within the following week; if at this second meeting there is no quorum either, the Director General or the President of the absent Party shall be notified of the calling of a third meeting one week thereafter, so that all pertinent measures are taken in order to obtain the required quorum; if even in this manner no quorum is obtained within the five (5) following working days, it shall be assumed that a divergency has occurred and the procedure provided for solving such divergency shall then be applied.
6. *Solving Divergencies in the Committees:* Should no agreement be reached within the Coordinating Committee or the Supervisory Committee, and unless otherwise provided in this Contract, the following procedure shall be followed:

*Venezuela*

- (a) The meeting shall be adjourned so that the members may consult with the Party they represent and another meeting shall be held within the week immediately following.
  - (b) Should the members of the Committee fail to reach an agreement at such meeting, the matter shall be taken to the Parties at the level of special representatives appointed by the Director General of "CVP" and the President of "CONTRACTOR" in order to find a solution within a period not exceeding one week.
  - (c) Should this period elapse without an agreement having been reached between the said representatives, the matter shall be submitted to the Director General of "CVP" and the President of "CONTRACTOR," who shall resolve the matter in the shortest possible time. Should they consider it appropriate, they may jointly consult experts on the subject.
  - (d) The Director General of "CVP" and the President of "CONTRACTOR," in solving the divergency in question, shall take into consideration the criteria which shall be the basis for the elaboration and execution of plans, programmes and budgets, in the following manner:
    - I. If it is a question of the additional exploration programme, the object of the Contract as indicated in Clause Two, the provisions of Paragraph Five of Clause Six and the geological interpretation resulting from activities already carried out shall be taken into account.
    - II. If it is a question of the plans, programmes and budgets as provided in Point One of Paragraph Five of Clause Ten, the profitability of the investment as provided in Clause Seven, the object of this Contract indicated in Clause Two, Clause Nine and Point Two of Paragraph Five of Clause Ten shall be taken into account.
  - (e) The Director General of "CVP" and the President of "CONTRACTOR," no later than the 30th November of each year and taking into account the criteria indicated in the foregoing literal, shall agree on the form in which the operations shall continue.  
However, if on such date they have not reached an agreement, production shall continue at the present level or at the one proposed by "CONTRACTOR," whichever is higher, without detriment to the applicable conservation norms, until such time as the matter under discussion is definitely solved. In any case, the procedure provided in this Clause shall be applied without prejudice to the corresponding rights and actions that the Parties may exercise in accordance with this Contract.
7. *Solving Divergencies in the Sub-Committees:* In the case of divergencies, the Sub-Committees shall submit them immediately to the Supervisory Committee for consideration.
8. *Secretary of the Committees and Sub-Committees:* One of the members of each Committee or Sub-Committee shall act as its secretary.  
To proceed with this appointment, the Parties shall make the annual selection alternately.

9. *Functions of the Secretary:* The Secretaries shall have, among their functions, in addition to any others that may be assigned to them, to call the meetings, prepare the agendas and draw up the minutes of the meetings in Spanish; number them consecutively and have them signed by the Parties representatives, amongst whom copies of said minutes shall be distributed.

*Paragraph Five*

*Presentation of the Annual Programme and Budgets*

- I. "CONTRACTOR" shall present to the Supervisory Committee not later than the 30th June of each year, the annual operations programme and the budgets corresponding to the following year, and for the first time within the fifteen (15) days following the date of the selection of the first lot by "CONTRACTOR" in order to initiate the consideration of the programmed activities.

No later than the 31st August of each year, the Supervisory Committee shall approve or amend the annual operations programme and the tentative budgets referred to in the foregoing paragraph which have been submitted by the respective Sub-Committees for its consideration.

No later than the 15th October of each year, "CONTRACTOR" shall submit in the same manner to the Supervisory Committee the final expenses and capital budgets approved in accordance with the foregoing paragraph.

No later than the 30th November of each year, the Supervisory Committee shall approve the final expenses and capital budgets.

"CVP" shall send copies of the said reports to the Ministry of Mines and Hydrocarbons for the purposes established in Clause Twenty-Five of this Contract. "CONTRACTOR's" annual operations programme shall include a five-year plan with respect to the projects foreseen for the next five (5) years. The annual operations programme shall include amongst others the following programs:

1. Geophysical Seismic Survey Programme.
2. Exploratory, Outpost and Development Drilling Programme.
3. Production and Exportation Programme, with indication of volumes, prices and destination of the crude.
4. Projects programme for the construction and installation of facilities for the production, gathering, treating and storage, fiscalization, transportation and delivery of crude.
5. Abandonment or reconditioning of wells programme.
6. Artificial lift programme.
7. Secondary recovery programme.
8. Personnel requirements programme.

- II. The programmes and annual budgets to be prepared and approved as herein provided, shall have as objective the exploitation and production of the exploitation area exclusively and the transportation of the petroleum to the point of delivery, in the most economic and efficient manner in accordance with the practices usually accepted in the oil industry and the sale by "CONTRACTOR" in the international markets of its corresponding volume of petroleum.

*Venezuela*

*Paragraph Six*

*Emergency Outlays*

“CONTRACTOR” is authorized in case of emergency within the operations, to take the measures in its judgement required or necessary to solve the emergency, but “CONTRACTOR” shall inform the Supervisory Committee as soon as possible of the nature of the emergency, the measures taken and the expenses incurred.

*Paragraph Seven*

*Information of the Activities Carried Out*

“CONTRACTOR” shall keep “CVP” continuously informed of all activities carried out, shall supply it with any type of information it may request with respect to the contracted services and shall present it with an annual report of the activities carried out during the year elapsed, in a manner similar to that required by the Ministry of Mines and Hydrocarbons.

*Paragraph Eight*

*Conservation Measures*

“CONTRACTOR” undertakes to comply with those measures on conservation of energy of the reservoirs and of the gas that may be produced, all in agreement with the measures dictated or to be dictated by the Ministry of Mines and Hydrocarbons.

*Paragraph Nine*

*Unitization and Operation Agreement*

In the cases of common reservoir or where it is advisable to enter into operations agreements to achieve maximum economy and efficiency in the exploitation, the corresponding agreements shall be entered into, with a joint representation of “CVP” and “CONTRACTOR” in each area. The agreements to be entered into must have prior approval by the Ministry of Mines and Hydrocarbons.

*Paragraph Ten*

*“CONTRACTOR’s” Personnel*

“CONTRACTOR’s” personnel must be Venezuelan. Only in cases where specialised technical personnel is required and is not available in Venezuela, and subject to the provisions of the corresponding collective contracts and with prior authorization of the competent bodies, “CONTRACTOR” may hire foreigners for a limited period on condition that they simultaneously train Venezuelans in the corresponding specialization.

*Paragraph Eleven*

*Purchases and Local Services*

“CONTRACTOR” shall make its purchases in and shall contract services from suppliers and natural or legal persons domiciled in Venezuela. Only in those cases where the goods, materials, equipment or machinery and specialized services are not available in the country or do not satisfy normal specifications required, “CONTRACTOR” may obtain these abroad after compliance with legal requirements.

*Paragraph Twelve*

*Inspection and Fiscalization*

“CONTRACTOR’s” work and activities shall in all aspects be subject to the provisions of Chapter III of the Law of Hydrocarbons and its Regulations.

**CLAUSE ELEVEN**

**MARKETING**

As provided in Paragraph One of Clause Two of this Agreement and in accordance with the marketing programmes approved by the Marketing Sub-Committee and the Supervisory Committee, “CONTRACTOR” shall place on the international markets the petroleum received from “CVP,” as provided in this Contract.

*Paragraph One*

*I. Criteria for the fixing of prices*

“CONTRACTOR” shall sell said petroleum at the commercial price fixed by the Marketing Sub-Committee and approved by the Supervisory Committee, taking into account current business practices, fiscal laws and the norms and recommendations of the Coordinating Commission for the conservation and trade of the hydrocarbons.

*II. Solving divergencies in case of disagreement on the fixing of prices in non-programmed sales*

In case of disagreement on the fixing of prices corresponding to non-programmed sales as provided in Paragraph Five of Clause Ten of this Contract, the following procedure shall be applied for the approval by the Supervisory Committee of the marketing programmes presented by “CONTRACTOR”:

- (a) In case of lack of agreement on the sales price within the fourteen (14) days following the date on which “CONTRACTOR” had proposed it to the Marketing Sub-Committee, the sale price shall be established by the Supervisory Committee. Should no agreement be reached in the Supervisory Committee on such price, the price shall be fixed on the basis of the average f.o.b. export prices billed by “CONTRACTOR” for crude petroleum of the same type and quality sold with prior approval of the Marketing Sub-Committee and the Supervisory Committee, during the three (3) months immediately preceding the date on which “CONTRACTOR” had proposed the price under discussion.
- (b) To determine said average price, the amounts at f.o.b. prices per barrel of all the invoices relative to sales of petroleum of the same type and quality made during the aforementioned period in accordance with the provisions of letter (a) of this Paragraph shall be summed up, and the results of this sum shall be divided by the total amount of barrels to which such invoices refer.
- (c) If such average price cannot be established during the aforementioned period of three (3) months, the average price of the f.o.b. export prices in Venezuelan terminals for petroleum of similar quality and characteristics sold by third

### *Venezuela*

parties during the same period of three (3) months shall be applied, making the adjustments necessary to take into account the petroleum quality and characteristics, as well as the transportation from the different export terminals. Said average price shall be determined by the Coordinating Committee for the Conservation and Trade of Hydrocarbons.

- (d) The Marketing Sub-Committee shall determine the procedure applicable to convert any other type of price to its equivalent f.o.b. export price.

### *III. Solving divergencies in cases of disagreement on the fixing of prices in programmed sales*

In case of disagreement on the fixing of prices corresponding to sales included in the Annual Marketing Programme presented by "CONTRACTOR" as provided in Paragraph Five of Clause Ten, the procedure established in number six in the section of common dispositions for Committees and Sub-Committees of Paragraph Four of said Clause shall be followed, but if no agreement had been reached on the aforementioned sales prices by the 30th November of the corresponding year, the same procedure established in Point II of the present Paragraph shall be applied. In such cases, the average f.o.b. price to which literals (a), (b) and (c) of Point II. of this Paragraph refers, shall be the one corresponding to the three (3) months immediately preceding the date on which the respective sales contract has been entered into.

The price thus obtained shall be applied to all sales involved in the disagreement, but either one of the Parties may exercise their corresponding rights and actions as provided in this Contract within the two (2) months following the date on which the respective sale had been made.

### *Paragraph Two*

#### *Treatment of Export Sales*

"CONTRACTOR" may carry out transactions of the type known as export sales before the price has been established in accordance with the provisions of this Clause, provided the circumstances so advise it, in accordance with the regulations that the Supervisory Committee may approve for such purpose.

Should the prices established by the Supervisory Committee for such transaction be different from the price at which said transaction had been realized, the price established by the Supervisory Committee, for all effects of this Contract, and with respect to such transactions, shall be substituted for the price of said realization, except for future fixing of the average price referred to in letters (a) and (c) of Paragraph One of this Clause.

### *Paragraph Three*

#### *"CVP's" Option to acquire petroleum in sales to third Parties*

Should "CONTRACTOR" present to the Marketing Sub-Committee a third Party offer for the purchase of crude at a price, terms and conditions not considered acceptable by "CVP's" representatives in the Sub-Committee, "CVP" may acquire such petroleum at the same price, terms and payment conditions presented by "CONTRACTOR" within the thirty (30) days following its objection in the Marketing Sub-Committee.

**CLAUSE TWELVE**

**REFINING IN THE COUNTRY**

"CVP" and "CONTRACTOR" shall, on their own initiative or at the request of the National Executive, enter into contracts for refining in the national territory all or part of the petroleum transferred to "CONTRACTOR" in accordance with Paragraph One of Clause Two of this Contract.

The draft agreement reached by "CVP" and "CONTRACTOR" shall require the authority of the National Executive and the approval of the Congress of the Republic.

**CLAUSE THIRTEEN**

**NON-TRANSFERABILITY OF THE EXPLORATION AND EXPLOITATION RIGHTS**

In accordance with Article 3 of the Law of Hydrocarbons and Article 4 of the Statutes of "CVP," "CONTRACTOR" does not acquire any rights in the reserves discovered and "CVP" does not alienate or encumber the hydrocarbons exploration and exploitation rights transferred to it and said rights cannot be the object of foreclosure by third Parties either.

**CLAUSE FOURTEEN**

**ASSIGNMENT OR TRANSFER OF CONTRACT**

This Contract has been entered into taking into account the technical capacity and experience of "CONTRACTOR" in oil industry operations and in activities related to same, as well as the economic and financial backing proved by "CONTRACTOR," and because of this reason "CONTRACTOR" agrees not to assign or transfer all or any part of this Contract without prior authorization by "CVP" and approval by the National Executive, both given in writing.

"CONTRACTOR" may subcontract individual operations with the prior authorization of the Coordinating Committee or the Supervisory Committee, as the case may be.

**CLAUSE FIFTEEN**

**REVERSION TO THE NATION OF THE LAND, WORKS AND OTHER PROPERTY USED IN THE PERFORMANCE OF THIS CONTRACT**

As provided in Article 3, Ordinal 2, numeral 5 of the Law of Hydrocarbons, the land and permanent works, including installations, accessories and equipment forming an integral part of same and any other property acquired for the purpose of this Contract,

*Venezuela*

whatever the acquisition title, shall be conserved to be delivered to the Nation, without any payment of indemnity whatsoever, whenever this Contract is terminated for any reason whatsoever.

*Paragraph One*

*Vigilance by "CVP"*

"CVP" shall assist the Ministry of Mines and Hydrocarbons in the due vigilance, so that "CONTRACTOR" should maintain and give appropriate use to said properties that will pass to the Nation.

*Paragraph Two*

*Administration and Disposal Acts*

When the efficiency of operations leading to the economic development of the contracted area justifies the alienation, removal, exchange or any other act in respect to such property which may affect the right of the Nation, "CVP" on its own initiative or at the request of "CONTRACTOR," shall process the request before the National Executive, who if it so deems convenient, shall give the necessary authorization to proceed with the action in question.

**CLAUSE SIXTEEN**

**FINANCIAL OBLIGATIONS OF "CONTRACTOR"**

"CONTRACTOR" shall provide for its exclusive account, the capital and funds necessary to make the investments, operating expenses and any other outlays required for the fulfilment of the obligations it assumes under this Contract.

*Sole Paragraph*

*Non-deductibility of Losses*

"CONTRACTOR" agrees that such investments, expenses and outlays are for its exclusive account and risk and that consequently neither "CONTRACTOR" nor the shareholders shall deduct the exploitation losses that may result from these operations from any other taxable income resulting from activities different from those covered by this Contract that either "CONTRACTOR" or its shareholders may have obtained or may obtain within the country.

**CLAUSE SEVENTEEN**

**FINANCIAL PARTICIPATION OF "CVP"**

"CONTRACTOR" shall give "CVP" the financial participation consisting of the following elements:

*Paragraph One—Bonuses*

*Contracting Bonus*

“CONTRACTOR” shall pay “CVP” in cash a contracting bonus of nine million U.S. dollars (U.S. \$9,000,000) thirty (30) days after the execution of this Contract.

*Production Bonuses*

- (a) “CONTRACTOR” shall pay “CVP” in cash one million U.S. dollars (U.S. \$ 1,000,000) when it selects the first lot.
- (b) When the average of the fiscalized production of crude petroleum of the lot selected by “CONTRACTOR” reaches for the first time, within a period of thirty (30) consecutive days, the amount of thirty-five thousand (35,000) barrels per day, “CONTRACTOR” shall pay “CVP” in cash two million U.S. dollars (U.S. \$ 2,000,000). Furthermore, for each average increment of five thousand (5,000) barrels per day during a period of thirty (30) consecutive days, over and above the thirty-five thousand (35,000) barrels per day and up to two hundred thousand (200,000) barrels per day, “CONTRACTOR” shall pay “CVP” in cash one million U.S. dollars (U.S. \$1,000,000).

*“CVP’s” Option*

“CVP” shall have the option to request “CONTRACTOR” to pay all and each of the cash bonuses provided in this Paragraph in dollars of the United States of America or the amount in bolivars resulting from the conversion of the same amount of dollars at the official rate of exchange applicable at the moment of the conversion and it is expressly understood that “CONTRACTOR” shall not disburse any additional amount of dollars except the bank expenses caused by the conversion.

*Non-deductibility and Non-chargeability of the Cash Bonuses*

“CONTRACTOR” shall not deduct the cash bonuses provided in this Paragraph from its net profit for the purposes of the additional participation to which Paragraph Three of this Clause refers, nor shall they be chargeable to the costs or deductible as expenses or amortized for income tax purposes, nor shall they be chargeable to the cost of the petroleum retained by “CVP” as provided in Paragraph One of Clause Two of this Contract.

*Paragraph Two*

*Depletion*

“CONTRACTOR” shall pay “CVP” for the concept of depletion an amount equivalent to five percent (5 %) of the exploitation tax paid.

*Paragraph Three*

*Additional “CVP” Participation According to Productivity*

“CONTRACTOR” shall pay “CVP” annually during the month of April of each year, an additional participation based on the net profit per barrel obtained by “CONTRACTOR” during the economic fiscal period immediately preceding, which shall be calculated in accordance with the following tables:

*Venezuela*

"CONTRACTOR's" Net Profit per Barrel (In dollar cents of the United States of America)	Additional "CVP" Participation (In dollar cents of the United States of America) in "CONTRACTOR's" Net Profit per Barrel
Less than 18	0,0
18	0,3
21	0,6
25	1,1
30	2,2
35	3,5
40	5,6
45	7,9
50	10,4

Should the profit level exceed U.S. \$0.50 per barrel, "CVP" shall receive in addition fifty-five percent (55 %) of the excess.

When "CONTRACTOR's" net profit per barrel finds itself between two values of this table, the additional "CVP" participation shall be determined by means of a linear interpolation, as explained in the following example:

If in a given fiscal year the "CONTRACTOR's" net profit reaches U.S. cents 38 per barrel, the additional "CVP" participation shall be calculated as follows:

*Values of the Additional Participation According to Table*

Net Profit	Additional Participation
dollar cents 35	dollar cents 3,5
dollar cents 40	dollar cents 5,6

The additional "CVP" participation corresponding to U.S. dollar cents 35 would be:

$$Y_{38} = \frac{5,6 - 3,5}{40 - 35} (38 - 35) + 3,5 = 4,76$$

that is: cents 4,76

In order to determine the "CONTRACTOR's" net profit per barrel, only the petroleum which had been transferred to it by "CVP," as provided in Paragraph One of Clause Two of this Contract, shall be taken into account.

*Paragraph Four*

*"CVP's" Option to Participate in the Capital Stock of "CONTRACTOR"*

As soon as commercial production has been determined, as provided in Clause Seven of this Contract and within one hundred and eighty (180) days following the selection by "CONTRACTOR" of the first lot, "CVP" may exercise the right to acquire the twenty percent (20 %) of the shares of the capital stock of "CONTRACTOR," through payment of the nominal values of the shares acquired.

**CLAUSE EIGHTEEN**

**FINANCING OF STUDIES**

"CONTRACTOR" shall finance studies up to a total of five hundred thousand bolivars (Bs 500,000) related to the following problems:

- (a) Desalinization of the Lake Maracaibo.
- (b) Sedimentation in the Maracaibo Bar Channel.
- (c) Sea erosion in the Goajira Coast.

"CONTRACTOR" shall not deduct such outlays from its net profit, for purposes of the additional "CVP" participation to which Paragraph Three of Clause Seventeen of this Contract refers, nor shall they be chargeable to costs or deductible as expenses or amortized for income tax purposes, nor shall they be chargeable to the cost of the petroleum retained by "CVP" as provided in Paragraph One of Clause Two of this Contract.

**CLAUSE NINETEEN**

**TAX REGIME**

"CONTRACTOR" shall pay the National Treasury, in the name and for account and order of "CVP," the amount of taxes, contributions and other fiscal obligations established in the Law of Hydrocarbons with the limitations contemplated at the end of the first part of Article 46 of said Law, and shall charge them as costs in the production of petroleum.

The exploitation tax and the other taxes, contributions and fiscal obligations established in the Law of Hydrocarbons, shall be paid in accordance with the provisions of this Law and its Regulations and the provisions in the Accounting Guide attached to this Contract. In case the National Executive elects to receive the exploitation tax in cash, said tax shall be calculated on the basis of the agreement which "CVP" shall enter into with the National Executive for the payment of royalties, taking as a basis the royalty reference prices of the agreements in force for similar hydrocarbons, it being understood that the realization prices obtained over and above the reference prices determined in accordance with the abovementioned agreements, shall prevail over such reference prices. The royalty prices shall be equal to those in force for concessionaires.

**CLAUSE TWENTY**

**PAYMENT OF OTHER TAXES**

"CONTRACTOR" shall pay in its name and for its account the other taxes that may be applicable because of the activities it carries out in the country, including Income Tax, in accordance with existing legal and statutory provisions now in force and those that in future may be established by the competent official bodies.

*Venezuela*

**CLAUSE TWENTY-ONE**

**ACCOUNTING SYSTEM AND AUDITING**

“CONTRACTOR” shall adopt an accounting system and a code of accounts based on the Accounting Guide attached to this Contract.

“CVP” shall make audits within the six (6) months following the closing of each fiscal year as well as accounting investigations in the books and other documents of “CONTRACTOR” at any time, as provided in letter (f) of Point III of the Accounting Guide. All things related to cost accounting, investment, expenses and depreciation and amortization methods, shall be governed by the Accounting Guide to which Paragraph One of Clause Second of this Contract refers.

**CLAUSE TWENTY-TWO**

**CAUSES FOR TERMINATING THE CONTRACT**

In addition to the causes for termination provided for the exploratory stage, this Contract may be terminated in the following cases:

- (a) Non-compliance of “CONTRACTOR” with the obligation to pay in the name of “CVP” the taxes provided in the Law of Hydrocarbons, at the time mentioned in this Law and its Regulations, taking into consideration the terms of gratia or postponement provided therein. The termination of this Contract for the cause herein indicated shall take place as a matter of Law.
- (b) When “CONTRACTOR,” once the alternate selection has been made, and the required production facilities have been built, has not commenced production of the petroleum discovered, or it reduces substantially the annual production to levels not in accordance with those approved by the Supervisory Committee, as provided in Clause Nine of this Contract.
- (c) For assigning this Contract totally or partially without prior authorization of “CVP” and approval of the National Executive.

*Paragraph One*

*Notification in Case of Breach of Contract*

Should one of the Parties consider that the other is in breach of this Contract, it shall notify the other Party in writing specifying the alleged fault and requesting that such fault be remedied, if it can be remedied, within the ninety (90) days following receipt of the notification. If within such ninety (90) day period, the other Party does not remedy such fault, the prejudiced Party may, if it so wishes, request the termination of this Contract or its fulfilment before Venezuelan Courts; in any case it shall be entitled to claim the damages that such non-fulfilment may have caused.

*Paragraph Two*

*Damages and Execution of Judgement*

If in accordance with the provisions of the foregoing Paragraph it is demonstrated at the request of “CVP” that “CONTRACTOR” has been in breach of this Contract

and its performance is ordered or said Contract is declared terminated, or if the termination is due to the provision of letter (a) of this Clause, once the damages caused have been officially determined, "CVP" may request the execution of the judgement against "CONTRACTOR" or execute the faithful performance bond granted for the purpose of this Contract.

*Paragraph Three*

*Security of the Interests of the National Treasury*

The termination of the present Contract shall take place without any prejudice or detriment to the interest of the National Treasury, which shall maintain with all vigour the corresponding rights and actions on the taxes and contributions "CONTRACTOR" may be obliged to pay at the moment in which the termination of this Contract occurs.

**CLAUSE TWENTY-THREE**

**TERMINATION OF THE CONTRACT BY "CONTRACTOR" DURING THE EXPLOITATION STAGE**

"CONTRACTOR" may terminate the present Contract during the exploitation stage, if at any time it demonstrates in an authentic manner that the economic conditions of the exploitation of the petroleum recovered at that moment have changed in such a way that its continuation would not be economically attractive for "CONTRACTOR." For this purpose an economic projection from that moment until the end of the exploitation period to which Clause Four refers shall be made, taking into account the remaining recoverable reserves in the exploitation area during the remaining period. To make such economic projection the sales income of "CONTRACTOR" shall be calculated at the applicable realization prices. From the year to year income, the costs of the exploration, development, exploitation, taxes, participation and other applicable outlays shall be deducted in accordance with the attached Accounting Guide. To the series of net profits thus obtained the corresponding annual depreciation and amortization shall be added. This series of Cash Flows shall be adjusted against the book value of the assets and the investments that would be necessary in the remaining years until the Contract expiry date, in order to obtain a series of Adjusted Flows, to which a discount rate between ten percent (10 %) and fifteen percent (15 %) that "CONTRACTOR" shall propose from that moment shall be applied. If the result of the algebraic sum of the discounted value were a negative amount, it shall be considered that the continuation of the Contract is not economically attractive for "CONTRACTOR."

*Paragraph One*

*Notification to "CVP" by "CONTRACTOR" to the Effects of Termination*

For the purposes of this Clause, "CONTRACTOR" shall notify "CVP" no later than 31st December of any year that the termination of the Contract shall take place the 31st December of the following calendar year, unless in the same notification it

### *Venezuela*

expresses its decision not to continue operating in the same calendar year, in which case it shall continue operations until the 31st January of the year of notice.

Year of notice is the period between the 1st January and the 31st December immediately following the aforementioned date of notification by "CONTRACTOR."

In order to make the termination effective, "CONTRACTOR" shall be solvent in all its obligations with the National Treasury.

#### *Paragraph Two*

##### *Continuation by "CONTRACTOR" of its Activities During the Year of Notice*

Should "CONTRACTOR" express at the aforementioned time its desire to continue operating during the calendar year of notice, "CONTRACTOR" shall carry out operations normally during that year, in accordance with the corresponding programme and budgets as approved by the Supervisory Committee, having the right to dispose of the petroleum corresponding to it and fulfilling all the obligations it has assumed under this Contract.

Notwithstanding, "CVP" may assume the operations at any moment during the course of the year of notice, in which case "CONTRACTOR" shall be free of all obligations under this Contract as from the date on which "CVP" assumes the operations, except for those obligations undertaken prior to that date and the fulfilment of which may still be pending.

#### *Paragraph Three*

##### *Indemnities "CONTRACTOR" Shall Pay "CVP" for Not Continuing Operations During the Year of Notice*

If "CONTRACTOR" at the aforementioned time expresses its decision not to continue operating during the calendar year of notice, it shall pay "CVP" the following as indemnity:

- (a) The amount of the expenses and investments contemplated in the budget and programme approved for such year.
- (b) An amount equivalent to that which would have corresponded to "CVP" under this Contract, had "CONTRACTOR" continued operating during the calendar year of notice.

## **CLAUSE TWENTY-FOUR**

### **FORCE MAJEURE**

The failure or delay in the fulfilment of any of the obligations of this Contract, shall not be considered as non-execution, violation or non-fulfilment of same, if such failure or delay is due to a fortuitous event or force majeure. Labor conflicts, strikes, any order or requirement of a legitimate authority, explosions, wars and blockades, sabotage, riots, mutiny, fire, floods, tornadoes, hurricanes, ground swells, tidal waves, lightning or other acts of God or event of a similar nature shall be considered as such, provided that in the occurrence of such act the affected Party has exercised due care and diligence to reasonably control, avoid or prevent the act and the damaging consequences of same.

*Sole Paragraph*

*Notification of Force Majeure*

Any of the Parties to this agreement which is unable to comply with any obligation or condition of same because of force majeure, shall notify the other Party in writing as soon as possible, of the cause of such failure and shall renew its fulfilment, if possible within a reasonable period after the force majeure has disappeared. In no case and for no cause whatsoever, the duration of this Contract shall be extended beyond the period of twenty three (23) years provided for in Clause Four hereof.

**CLAUSE TWENTY-FIVE**

**APPLICATION OF THE LAW OF HYDROCARBONS AND ITS REGULATIONS**

The provisions of the Law of Hydrocarbons and its Regulations shall be applicable to this agreement insofar as they are compatible with same.

*Sole Paragraph*

*Authorization to "CONTRACTOR" for the Exercise of "CVP's" Complementary Rights*

With the purpose to assist "CONTRACTOR" in the performance of the activities provided in Clause Two of this Contract, "CVP" authorizes "CONTRACTOR" to exercise in its name and representation the complementary rights corresponding to "CVP" in accordance with the Law of Hydrocarbons and its Regulations, to this effect "CONTRACTOR" may request the establishment of the pertinent surface rights, right of way, exoneration from taxes or import duties or any other complementary rights.

**CLAUSE TWENTY-SIX**

**JURISDICTION OF VENEZUELAN COURTS AND APPLICATION OF VENEZUELAN LAWS**

Any doubts or controversies that may arise as a result of the performance of this Contract and that cannot be solved amicably, shall be decided upon by the competent courts of Venezuela, in accordance with its Laws and for no cause or reason can they originate foreign claims.

**CLAUSE TWENTY-SEVEN**

**FAITHFUL COMPLIANCE BOND**

I, Jan Joost de Liefde, in my capacity as President of Compañía Shell de Venezuela Limited, registered before the Mercantile Registrar of the Federal District, on 26th May 1953, under No. 278, Volume I-A, published in the Municipal Gazette of Caracas dated

*Venezuela*

6th July 1953, and duly authorized for this act by its Board of Directors, as evidenced in the resolution adopted on the first day of the month of June of 1971, a certified copy of which is attached in order that as an exhibit it may form part of this Contract, declare: Whereas my principal COMPAÑIA SHELL DE VENEZUELA LIMITED, was the enterprise selected by CORPORACION VENEZOLANA DEL PETROLEO in the assembly of offers it promoted for the execution of a Service Contract for the exploration and exploitation of petroleum in the plot called "B," sufficiently identified in Clause Three of this Agreement, to which effect and for the execution and performance of this Contract the undertaking "SHELL SUR DEL LAGO C.A." has been established in accordance with the Laws of Venezuela, which undertaking is a Party to this Contract; therefore, I hereby constitute my principal as solidary guarantor and principal payer to guarantee to CORPORACION VENEZOLANA DEL PETROLEO the faithful performance of all and each one of the obligations assumed under this Contract by the aforementioned "CONTRACTOR" "SHELL SUR DEL LAGO C.A." during the life of said Contract and until its total and complete termination.

**CLAUSE TWENTY-EIGHT**

**DOMICILE**

For all purposes of this Contract, the city of Caracas, Venezuela, has been elected as special domicile with exclusion of any other, to whose Courts the Parties of this Contract agree to submit themselves.

In accordance with all the foregoing, the present Contract is executed in three (3) copies of the same tenor and to one sole effect, in the Spanish language, in the city of Caracas, on the twenty-ninth (29) day of the month of July of the year one thousand nine hundred and seventy-one (1971).

By:

CORPORACION VENEZOLANA

DEL PETROLEO ("CVP")

Maurice Valery N.

Director General

By:

SHELL SUR DEL LAGO C.A.

("CONTRACTOR")

José Rafael Domínguez

President

By:

COMPAÑIA SHELL DE VENEZUELA  
LIMITED (GUARANTOR)

Jan Joost de Liefde

President

*Selected Documents — 1971*

SERVICE CONTRACT

BLOCK "C"

Between the CORPORACION VENEZOLANA DEL PETROLEO, created by Executive Decree No. 260 of 19 April 1960, published in Official Gazette No. 26,234 dated 22 April 1960, represented in this act by doctor Maurice Valery N., a Lawyer, of age, married, holder of Identity Card No. 286,580, in his character of Director General, appointed by the Directive Council on 7 September 1970, in accordance with letter (d) of Article 8 of the Statute governing the Corporación Venezolana del Petróleo and with express authority of the Executive Board of the Corporation as evidenced by Point 2, Minutes 585 dated 10 September 1971, by the Directive Council as evidenced by Point 3, Minutes 165 of 4 May 1971, and by the National Executive, as evidenced by Oficio No. CJ-1876 dated 9 September 1971, certified copies of which authorizations are attached hereto, marked "1," "2" and "3" hereinafter referred to as "CVP," on the one hand; and on the other hand, by MOBIL MARACAIBO, C.A., hereinafter referred to as "CONTRACTOR" specially incorporated, organized, and existing under the laws of the State of Delaware, United States of America, and duly domiciled in the Republic of Venezuela, as evidenced by a document recorded at the Mercantile Registry of the Judicial Circumscription of the Federal District and State of Miranda on 9 September 1971, under No. 92, Volume 70-A, represented in this act by doctors Rómulo Quintero V., Adolfo Nass R., and Emilio Spósito Jiménez, duly empowered as per power of attorney, certified copy of which is also attached, it has been agreed to enter into, in accordance with the existing Law of Hydrocarbons and with the Contracting Bases approved by the National Congress, the Service contract whose terms and conditions are contained in the following Clauses:

CLAUSE ONE

*Definitions*

1.0 The definitions hereinafter set forth shall have the scope herein determined to the effects of the interpretation of this Contract.

*Contract or Agreement:* Means, in either case, this instrument and the other attached documents which form an integral part of same.

*Block:* Means the fifty thousand (50,000) hectare area as determined in Exhibit "C" of this Contract, divided into ten (10) five thousand (5,000) hectare lots, each divided into ten (10) parcels of five hundred (500) hectares each. The Block is identified in Clause Three of this Contract.

*Lot:* Means each of the parts into which the Block is divided and which has an area of five thousand (5,000) hectares.

*Parcel:* Means each of the parts into which each Lot is divided and which has an area of five hundred (500) hectares.

*Venezuela*

*Original Area:* Means the Block considered as the object of the exploration herein stipulated.

*Exploitation Area:* Means the area resulting from the alternate selection, made by "CONTRACTOR" and "CVP" on the original area, in the manner herein provided and shall be formed by the two (2) lots selected by "CONTRACTOR."

*Petroleum:* Means crude petroleum, natural asphalt, all the hydrocarbons which are in a liquid phase in their natural state and the condensate.

*Condensate:* Means the petroleum which is obtained in a liquid form under normal separation conditions, but which is found in gaseous phase under the original conditions of the reservoir and is not obtained by means of processes such as absorption, adsorption, compression, refrigeration, or by a combination of such processes.

*Associated Natural Gas:* Means the hydrocarbons encountered in gaseous phase under normal separation conditions.

*Normal Separation Conditions:* Means the characteristics of the methods employed for the separation of the gas associated with the petroleum, utilizing separators accepted for the industry for this purpose by the Ministry of Mines and Hydrocarbons. The methods mentioned here are the ones known as separation in one or more stages or at low temperature but only when this last one is produced as an inherent result of the separation method itself and in no case as a result of the application of a process, system, mechanism or installation destined to the cooling of the separated gas.

*Free Natural Gas Reservoir:* Means the reservoirs containing natural gas exclusively. In addition, any reservoir whose condensate yield is so low that recycling would be uneconomical, is considered a free gas reservoir.

*Exploratory Well:* Means any well drilled for purposes of exploring the Block, in a location where it is expected to find production from reservoirs that up to that moment have not been proved productive and included among the classification of exploratory wells established by the Ministry of Mines and Hydrocarbons whose text is attached herewith as Exhibit "A" to this Contract.

*Barrel:* Means a volume of 158.984 liters at a temperature of 15.56° C (60° F) and at one (1) atmosphere of pressure.

*Minimum Exploration Program:* Means the exploration program "CONTRACTOR" agrees to carry out as provided in Clause Six of this Contract.

*Party:* Means "CONTRACTOR" or "CVP," and Parties mean "CONTRACTOR" and "CVP."

*Commercial Production:* Means the production determined as provided in Clause Seven of this Agreement.

*Net Profit of "CONTRACTOR":* Means, for purposes of the Additional Participation of "CVP" as provided in Paragraph Three of Clause Seventeen of this Contract, the profit to be determined in accordance with the Accounting Guide attached to this Contract, marked Exhibit "B."

*Selected Documents — 1971*

*Net Profit of "CONTRACTOR" per Barrel:* Means the amount resulting from dividing the net profit of "CONTRACTOR" by the total number of barrels of oil transferred to "CONTRACTOR" by "CVP" during the corresponding fiscal year, and sold by "CONTRACTOR" during the same year.

**CLAUSE TWO**

**OBJECT OF THE CONTRACT**

2.0 During the life of this Contract "CONTRACTOR" shall carry out by its own means and for its exclusive account and at its exclusive risk, but in the name and representation of "CVP," the following activities:

- (a) Fully explore Block "C" in accordance with the Minimum Exploratory Program and the additional exploration programs, if any, as provided in Clause Six hereof;
- (b) Exploit the petroleum recoverable in the exploitation area; and
- (c) Transport, store and convey the petroleum produced up to the point of delivery.

"CONTRACTOR" in its own name shall sell and place the petroleum received from "CVP" on the international markets.

2.1 *Paragraph One*

*Disposal of the Petroleum Produced*

"CONTRACTOR" shall extract the recoverable petroleum and deliver it to "CVP" after deducting the amounts referred to in Paragraph Two of this clause. "CVP" in turn, shall transfer in fee to "CONTRACTOR" eighty-five percent (85 %) of the petroleum received, for its sale on the international markets. "CVP" shall retain fifteen percent (15 %) of the petroleum received and shall reimburse "CONTRACTOR" in the same proportion, for the corresponding production cost up to the point of delivery.

The production cost shall be constituted, among others, of the following items:

1. Amortization and depreciation of the investments made.
2. Taxes, contributions and other fiscal obligations established in the Law of Hydrocarbons, and other fees and contributions, including municipal taxes, paid with respect to the activities of "CONTRACTOR," before disposal of the petroleum produced.
3. Operating and maintenance expenses.
4. General and Administrative expenses.

These costs shall be determined on the basis of the procedure indicated in the attached Accounting Guide, which as signed by the parties forms an integral part of this Contract.

## *Venezuela*

### **2.2 Paragraph Two**

*Usage of petroleum in the operations and payment of the exploitation tax in kind*  
“CONTRACTOR” may utilize in its operations such as well stimulation the petroleum that is indispensable to such operations. The Supervisory Committee may regulate said utilization. The quantities of petroleum thus utilized shall be deducted from the total production before its delivery to “CVP.”

The quantities delivered in kind by “CONTRACTOR” to the National Executive for exploitation tax, if such were the case, as provided in Clause 19 of this Contract, shall likewise be deducted from the total production before its delivery by “CONTRACTOR” to “CVP.”

### **2.3 Paragraph Three**

#### *Place of Delivery of Petroleum*

“CONTRACTOR” shall deliver the petroleum to “CVP” at the outlet of the flange connecting the hose of the loading terminal with the connecting flange of the tanker, and at this same place “CVP” as provided in Paragraph One of this Clause shall transfer to “CONTRACTOR” as a compensation for the obligations it is assuming under this Contract eighty-five percent (85 %) of the petroleum received and shall retain the remaining fifteen percent (15 %).

Any losses occurring before delivery, and the costs as defined in Paragraph 1, shall be proportionately shared by both parties as follows: “CONTRACTOR,” eighty-five percent (85 %); “CVP,” fifteen percent (15 %).

### **2.4 Paragraph Four**

#### *Procedure for Withdrawal of the Petroleum Produced*

The parties agree to take their corresponding volume of petroleum in due time. When one of the parties does not withdraw it in due time, the other party shall have the option of taking it if the circumstances established by the Supervisory Committee so allow; the Parties will endeavor that any delay by one of the parties does not impair the other. The Supervisory Committee shall fix the conditions and the operating and accounting procedures to effect the adjustments which may be necessary.

### **2.5 Paragraph Five**

#### *Disposal of the Natural Gas Produced*

##### *Associated Natural Gas*

“CONTRACTOR” may utilize the associated gas produced with the petroleum as required for its production operations and conservation programs, and shall deliver all excess gas to “CVP” free of cost at the outlet of the separators. “CVP” may extract, at its own expense, the condensable liquids from the associated gas, including the gas that might be used by “CONTRACTOR” for the indicated purposes.

“CVP” shall dispose of such gas without violating any government regulations then existing and applicable to the utilization of gas, in such a manner that

"CONTRACTOR" may fulfill the production program as approved by the Supervisory Committee.

*Condensate*

Condensate reservoirs for their exploitation shall be subject to recycling. Condensate reservoirs shall be considered free gas reservoirs when the production of liquid is uneconomical.

*Free Natural Gas*

"CONTRACTOR," by virtue of this Contract, shall have no rights whatsoever to the free gas reservoirs which may be discovered.

*Special arrangements for the Utilization of the Gas*

"CVP," when it so deems convenient, may enter into special agreements with "CONTRACTOR" or with third parties for the utilization of the associated or free gas, without prejudice of the pertinent legal provisions.

Should "CVP" decide to enter into special agreements for the utilization of the gas and "CONTRACTOR" has made an offer for this purpose, "CVP" shall give it preferred consideration, provided the terms and conditions offered by "CONTRACTOR" are equal or better than those of the other offers received.

**CLAUSE THREE**

**IDENTIFICATION OF BLOCK "C"**

3.0 The area object of this Contract, located in South Lake Maracaibo, consists of a fifty thousand hectare (50,000 Has.) block identified as Block "C," which includes ten (10) five thousand hectare (5,000 Has.) lots, each of such lots divided into ten (10) parcels of five hundred (500 Has.) hectares each. Block "C" is identified as follows:

Going from a point having as coordinates S-121,976.98 and E-716.75, one measures 40,000 meters due East up to a point having as coordinates S-121,976.98 and E-40,716.75; from there one measures 10,000 meters due South up to a point having as coordinates S-131,976.98 and E-40,716.75; from there one measures 10,000 meters due West up to a point having as coordinates S-131,976.98 and E-30,716.75; from there one measures 10,000 meters due South up to a point having as coordinates S-141,976.98 and E-30,716.75; from there one measures 10,000 meters due West up to a point having as coordinates S-141,976.98 and E-20,716.75; from there one measures 10,000 meters due North up to a point having as coordinates S-131,976.98 and E-20,716.75; from there one measures 20,000 meters due West up to a point having as coordinates S-131,976.98 and E-716.75; from there one measures 10,000 meters due North up to a point having as coordinates S-121,976.98 and E-716.75, which is the vertex of origin of Block "C."

Origin of coordinates; Cathedral of Maracaibo 0-0.

The form, orientation and location of the Lots integrating the mentioned Block are indicated in Exhibit "C" to this Contract.

**Venezuela**

**CLAUSE FOUR**

**DURATION OF THE CONTRACT**

**4.0** This Contract shall cover a maximum exploratory period of three (3) years from the date of its execution, and an exploitation period of twenty (20) years which shall begin on the termination of the exploratory period or on the date during the exploratory period on which early exploitation may be begun, as provided in Paragraph Four of Clause Six of this Contract.

**CLAUSE FIVE**

**EXPLORATORY STAGE**

**5.0** "CONTRACTOR" shall carry out, during the first three (3) years of this Contract, all activities related to the exploration of the area of the contracted Block, in search of petroleum by means of geological and geophysical investigations, well drilling and any other operation in accordance with the exploration practices and techniques accepted by the petroleum industry, in order to fully explore the area and evaluate the existing structural or stratigraphic traps, in accordance with the Minimum Exploration Program as provided in Clause Six hereof and with the additional exploration programs, if any.

**CLAUSE SIX**

**MINIMUM EXPLORATION PROGRAM**

**6.0** The exploration program that "CONTRACTOR" undertakes to carry out consists of:

- (a) A seismic survey covering 200 kilometers of seismic lines. Exhibits "D" and "D 1" to this Contract show the project of seismic survey and its characteristics as approved by the Parties, but the final location of these lines may be modified by the Coordinating Committee in accordance with the results from the wells that have been drilled.
- (b) The drilling of seven exploratory wells in not less than three separate lots in Block "C." Five of these wells will penetrate the Guasare Formation of Paleocene age, and the remaining two wells will penetrate the Cretaceous.

The Minimum Exploration Program shall be carried out as follows:

1. At such time as the Parties decide, "CONTRACTOR" will proceed to carry out the seismic survey as described under Exhibit "D," or as modified by the Coordinating Committee under (a) above.
2. The "CONTRACTOR" and "CVP" have agreed:

*Selected Documents — 1971*

- (a) That the locations of the wells to be drilled will initially be limited to the prospects identified by the letters A, E, F, H, I, J and K shown on the attached map marked Exhibit "D 2."
  - (b) That the first three (3) wells to be drilled to penetrate the Guasare Formation of Paleocene age will be located on prospects A, K and H.
3. "CONTRACTOR" shall begin as soon as possible with the drilling of the wells in the three (3) locations mentioned under 2. (b) above.
  4. "CONTRACTOR" will then complete the drilling of the remaining wells in the locations selected in accordance with the prospects to which point 2. (a) refers, unless the seismic survey and the data from wells already drilled indicate better prospects, in which case mutual agreement of "CVP" and "CONTRACTOR" will be required to choose a new location. In the absence of such mutual agreement, "CONTRACTOR" will complete the drilling of the remaining wells, in accordance with prospects approved in point 2. (a).
  5. It is understood that "CONTRACTOR" will supply the Coordinating Committee with the data from the seismic survey and from the drilling of wells as the Minimum Exploration Program is developed. "CONTRACTOR" shall initiate the taking of bids for the seismic survey and for the drilling and completion of wells. The same procedure shall be followed for any exploration program in addition to the minimum exploration program agreed to herein. After analysis of the offers received, "CONTRACTOR" shall select the enterprise or enterprises which shall execute the works, and for this purpose shall take into account the factors it deems appropriate. If "CONTRACTOR" decides to carry out such work directly, it shall do so on a competitive basis, and to such effect it shall previously solicit quotations on the market from specialized enterprises. With the results of the bidding or tenders, Contractors shall prepare a detailed budget for the Minimum Exploration Program, adding to the cost of the works subject to bidding or tenders the direct or indirect costs applicable to the project, which are determined in the attached Accounting Guide. The budgets of the works included in the Minimum Exploration Program, shall be submitted by "CONTRACTOR" for the approval of the Coordinating Committee thirty days prior to initiation of each of said works.

#### **6.1 Paragraph One**

##### *Non-Continuation of the Minimum Exploration Program*

"CONTRACTOR," with the prior authorization of "CVP," may terminate the Minimum Exploration Program if during its execution it considers that conditions of the subsoil in the area do not permit to expect a reasonable opportunity to discover accumulations of commercial quantities of petroleum, in which case it shall pay "CVP" fifty percent (50 %) of the investment required to complete the Minimum Exploration Program and the Contract shall be terminated. However, if commercial production has been determined by "CONTRACTOR" and if the information obtained does not warrant the continuation of the Minimum

## *Venezuela*

Exploration Program, "CONTRACTOR," with the prior approval of "CVP," may consider it terminated, in which case it shall pay "CVP" the balance of the investments necessary to complete it and shall proceed with the alternate selection. The calculation of the abovementioned investments shall be based on the budgets approved for such purposes by the Coordinating Committee and which shall be adjusted on the basis of the actual cost of the surveys already made and of the wells already drilled, making the necessary deductions to such actual costs in order to take into account any extraordinary expenses incurred as a consequence of abnormal conditions, in the opinion of the Coordinating Committee.

The investments thus calculated shall be used in the determination of the abovementioned indemnities to be received by "CVP" by virtue of the non-continuation of the Minimum Exploration Program.

### **6.2 Paragraph Two**

#### *Beginning and Continuity of the Operations*

"CONTRACTOR" shall initiate the Minimum Exploration Program within six (6) months following the execution of this Contract and shall carry it without interruption. The period in which "CONTRACTOR" suspends field operations to carry out the processing and interpretation of data or studies during a prudential period of time in the opinion of the Coordinating Committee shall not be considered an interruption, nor shall the time elapsed to obtain the approval of permits or authorizations from competent authorities with respect to the operations or in awaiting decisions of the Coordinating Committee be considered an interruption. Any other suspension of the Minimum Exploration Program for more than 30 days and not due to fortuitous case or force majeure, shall be considered an interruption of said program.

### **6.3 Paragraph Three**

#### *Penalty for not initiating the Minimum Exploration Program or for interrupting same.*

If "CONTRACTOR" has not initiated the Minimum Exploration Program within the abovementioned period, or if it has interrupted it for a period of more than thirty consecutive days, "CVP" shall be entitled to rescind this Contract at the end of the mentioned term and in both cases "CONTRACTOR" shall pay "CVP," as compensation, the amount of the investments necessary to carry out or complete, as the case may be, the Minimum Exploration Program. If "CONTRACTOR" has not initiated the Minimum Exploration Program within the abovementioned period, the amount of the indicated investments shall be determined on the basis of the budgets approved by the Coordinating Committee for such purpose. If the operations have been interrupted, the amount of the indemnity shall be calculated on the basis of the same budgets adjusted in accordance with the actual costs of that portion already executed. "CVP" shall advise the Coordinating Committee in writing on each occasion when it considers that an interruption of the Minimum Exploration Program has begun. The thirty-day period shall begin on the

date of receipt of the notice by said Committee and shall be interrupted when the "CONTRACTOR" proves that the activities have been resumed.

It is understood that "CONTRACTOR" has initiated the Minimum Exploration Program once it has proceeded with the taking of bids for the seismic survey or drilling and termination of wells, or solicited the corresponding quotations on the market, or ordered the purchase of equipment and materials, or begun to request permits from the competent authorities.

#### **6.4 Paragraph Four**

##### *Selection and Early Exploitation*

- (a) "CONTRACTOR" may, at any time during the exploration period, if it has determined commercial production in any one of the lots forming the Block, select this first lot for its exploitation, thus beginning the early exploitation and the twenty-year (20-year) exploitation period shall begin on the date on which such selection is made. "CONTRACTOR" shall continue the Minimum Exploration Program planned for all the Block as provided in this Clause.
- (b) Should "CONTRACTOR" not have made the abovementioned early selection and having completed the Minimum Exploration Program with sufficient anticipation to the end of the three (3) years of the Exploratory Period, provided "CONTRACTOR" has determined commercial production, the Parties shall proceed with the early alternate selection in accordance with the procedure as provided in Paragraph One of Clause Eight of this Contract, thus initiating the early exploitation, and the twenty-year exploitation period shall begin on the date on which "CONTRACTOR" selects its first lot.

#### **6.5 Paragraph Five**

##### *Additional Programs*

During the exploratory period "CONTRACTOR" may carry out additional exploration programs to evaluate other traps in the contracted Block, as well as drilling programs of outpost wells and detailed seismic surveys, with the object of achieving a more precise delimitation of the discovered reservoirs. Such additional programs must be considered and approved by the Coordinating Committee.

#### **6.6 Paragraph Six**

##### *Termination of the Contract at the end of the Exploratory Period and Penalty in case of non-fulfillment of the Minimum Exploration Program.*

If at the end of the three (3) years of the exploratory period, "CONTRACTOR" has not determined any commercial production, this Contract shall be rescinded. If such period elapses and "CONTRACTOR" has not completely fulfilled the Minimum Exploration Program, "CONTRACTOR" shall pay "CVP" the sum required to complete such program on the basis of the actual cost of the portion already carried out and its calculation shall be done in accordance with the provisions of Paragraph One of this Clause, without prejudice of "CVP's" right to rescind this Contract.

In case "CONTRACTOR" has determined commercial production, but has not

## *Venezuela*

completed the Minimum Exploration Program within the three (3) years provided, due to fortuitous occurrences or force majeure, "CONTRACTOR" shall pay "CVP" the sum necessary to complete such program, calculated as provided in said Paragraph One of this Clause and the alternate selection shall be made.

### **6.7 Paragraph Seven**

#### *Production Tests*

At any time during the exploratory stage "CONTRACTOR" may carry out well production tests. "CVP" shall dispose for its own account and at its own risk of the petroleum or gas produced in such a manner that the abovementioned tests are not interrupted.

## **CLAUSE SEVEN**

### **DETERMINATION OF COMMERCIAL PRODUCTION**

**7.0** "CONTRACTOR" shall determine if it has discovered petroleum in commercial quantities at any time during the exploratory period and in any lot.

#### **7.1 Paragraph One**

##### *When it will be determined*

Commercial production will have been determined when the estimated recoverable reserves in the exploitation area to be selected by "CONTRACTOR" are such that they permit to reasonably arrive at an economic forecast of the exploitation program.

#### **7.2 Paragraph Two**

##### *How it will be determined*

To make such an economic forecast, the sales income shall be calculated at the applicable realization prices. The annual cost for future exploration, development, exploitation, taxes, participations and other applicable expenses shall be deducted from the year to year income, as provided in the Accounting Guide mentioned in Clause Two hereof. The corresponding annual depreciation and amortization shall be added to the series of net profits thus obtained. This series of cash flows shall be adjusted against the investments made, year to year, to obtain a series of Adjusted Flows to which a reasonable discount rate that "CONTRACTOR" shall propose shall be applied from the moment at which the first income is estimated from sales of the petroleum from the area. If the result of the algebraic sum of the discounted values is zero or a positive figure, it shall be considered that commercial production has been determined.

In case of divergence in the Coordinating Committee over whether commercial production has been determined or not and, consequently, if one should proceed with the exploitation stage, the provisions of letters (a), (b), (c) and of the last paragraph of letter (e) of the Procedure for the solving of divergences in the Committees, contemplated under Number 6 of Paragraph Five of Clause Ten of this Contract, shall be applied.

## CLAUSE EIGHT

### ALTERNATE SELECTION OF THE EXPLOITATION AREA

8.0 At the end of the three (3) year exploratory period and upon completion of the Minimum Exploration Program, or in the cases provided for in the second part of Paragraph One and in the last part of Paragraph Six of Clause Six of this Contract, provided "CONTRACTOR" has determined commercial production during such period in one or several of the lots forming the explored block, the exploitation area shall be selected by means of the alternate selection of lots up to an area of not more than 20% of the Block. To this effect, "CONTRACTOR" shall select a first lot within the seven (7) days following the end of the exploration period. Within a period of seven (7) days from the date on which "CONTRACTOR" has selected the first lot, "CVP" shall select another lot and then "CONTRACTOR" shall select a second lot within the seven (7) days following the date on which "CVP" has selected its lot.

#### 8.1 *Paragraph One*

##### *Early Alternate Selection*

Should the Minimum Exploration Program as well as the Additional Programs, if any, have been completed before the end of the three (3) years and provided "CONTRACTOR" has determined commercial production, the alternate selection shall be carried out as follows:

"CONTRACTOR" shall select its first lot within three (3) months following the completion or abandonment of the last well provided for in the Minimum Exploration Program or in the additional programs, if any. "CVP" shall select its lot within the seven (7) days following the date on which "CONTRACTOR" selected the first lot, and the latter shall select its second lot within the seven (7) days following the date on which "CVP" selected its lot.

#### 8.2 *Paragraph Two*

##### *Alternate Selection of the Second and Third Lots*

In case "CONTRACTOR" should have made the selection of the lot as referred to under letter (a) of Paragraph Four of Clause Six of this Contract it will be "CVP's" turn to make the selection of another lot within the three (3) months following the date of termination of the Minimum Exploration Program or of the additional programs, if any, or within seven (7) days following the end of the exploratory period, whichever occurs first. "CONTRACTOR" shall select its second lot within seven (7) days following the date on which "CVP" has selected its lot.

#### 8.3 *Paragraph Three*

##### *Exploitation Area*

The two (2) lots selected by "CONTRACTOR" shall form the exploitation area.

## *Venezuela*

### **8.4 Paragraph Four**

#### *Period Within Which Selection Must Be Made*

It is understood that the periods established in this Clause shall be completed in any case within the three (3) year Exploratory period and the twenty-one (21) working days immediately following. Without prejudice of any rights and actions either Party may be entitled to by virtue of this Contract and the Law, failure by any of the Parties to perform with the obligation of selecting the corresponding lots within the lapses mentioned above, will entitle the other Party to receive the sum of U.S. \$100,000 for each day of delay in making the selection within said lapses.

### **8.5 Paragraph Five**

#### *Reduction of the Exploitation Area*

"CONTRACTOR" with prior approval by "CVP" may reduce the exploitation area by excluding one or more of the 500-hectare parcels into which each of the lots selected is divided. Therefore, the corresponding adjustments to the plans shall be made, and from the date of its approval by the Ministry of Mines and Hydrocarbons, the area thus affected shall no longer be subject to the provisions of this Contract.

## **CLAUSE NINE**

### **EXPLOITATION STAGE**

9.0 Once "CONTRACTOR" has made its selection and the exploitation period has begun as provided in Clause Four and Paragraph Four of Clause Six of this Contract, "CONTRACTOR" shall begin the activities of exploitation of the petroleum discovered in accordance with the development programs determined to such effect by the Supervisory Committee, and once the production facilities required have been built, it shall start production, in accordance with the annual production program determined by the Supervisory Committee, taking into consideration the characteristics of the reservoirs, the applicable conservation norms, the recoverable reserves, the capacity of existing production installations and market conditions. All these activities shall be carried out by "CONTRACTOR" in the most economical and efficient manner, in accordance with usual practices of the oil industry.

## **CLAUSE TEN**

### **OPERATIVE PARTICIPATION BY "CVP"**

10.0 "CVP" shall have ample operative participation in the elaboration, implementation, and supervision of the plans, programs and budgets required for the development and production. Such operative participation shall be exercised through committees and sub-committees integrated in equal proportion by representatives of "CVP" and of "CONTRACTOR."

**10.1 Paragraph One**

*Committees and Sub-Committees*

The Coordinating and High Level Supervisory Committees as well as the Technical, Marketing of Petroleum and Derivatives, Administrative-Financial and Legal Sub-Committees are created. Such Committees and Sub-Committees shall have the attributions herein established. The Sub-Committees shall exercise their functions during the exploitation stage. The decisions of the Coordinating Committee and of the High Level Supervisory Committee shall be binding upon "CONTRACTOR" as well as "CVP."

**10.2 Paragraph Two**

*Coordinating Committee*

*Composition:* The Coordinating Committee shall exercise its functions during the exploration stage and shall be composed of two representatives of "CVP" and two of "CONTRACTOR," with their respective alternates.

*First Meeting:* The Coordinating Committee shall meet in Caracas or at any other place agreed upon by the Parties for such purpose. The Committee shall first meet within thirty (30) days following publication of the Contract in the Official Gazette.

*Functions:* The Coordinating Committee shall have, among others, the following attributions:

1. To coordinate and supervise the progress and fulfillment of the exploratory program;
2. To approve the budgets for the Minimum Exploration Program;
3. To consider, approve or reform the additional exploration and outpost programs proposed by "CONTRACTOR;"
4. To study the pertinent data and the evaluation and analysis presented by "CONTRACTOR," when the latter represents having determined commercial production and to resolve if such commercial production has in fact been determined and if the exploitation stage should be initiated.

*Work or Advisory Groups:* The Coordinating Committee may use the work or advisory groups it may consider convenient to carry out the analysis and technical evaluation of the approved programs, and it shall assign to them the duties and functions it may deem appropriate for the fulfillment of their job.

The decisions taken by such groups shall have the character of recommendations and shall not be binding upon the Parties.

**10.3 Paragraph Three**

*High Level Supervisory Committee*

*Composition:* The Supervisory Committee shall exercise its functions during the exploitation stage and shall be composed of two representatives of "CVP" and two of "CONTRACTOR" with their respective alternates.

### *Venezuela*

*First Meeting:* The Supervisory Committee shall hold its first meeting in Caracas, within the thirty (30) days following the date of selection of the first lot by "CONTRACTOR," for the purpose of approving or amending during such period the Program of Operations for the current year. Within sixty (60) days following approval of the Program of Operations the Committee shall approve the expense, capital and financial budgets corresponding to such program.

In case selection of the first lot should occur on a later date than June 30, the Supervisory Committee shall also approve or amend, on the same occasions, the Annual Program of Operations and the budgets corresponding to the following year.

*Functions:* The High Level Supervisory Committee shall have the following functions:

1. To assign to the Sub-Committees the functions and duties it considers necessary.
2. To resolve any divergences which may arise within the Sub-Committees.
3. To review, approve, modify or disapprove the plans, programs and budgets of exploration other than those pertaining to the Coordinating Committee; and those of exploitation, production, marketing and any others, which shall be submitted for its consideration by the respective Sub-Committees.
4. To review semi-annually or whenever it deems necessary, such plans, programs and budgets to make the pertinent adjustment and modifications, as well as the implementation of such plans, programs and budgets directly or through the respective Sub-Committees.
5. To approve the Annual Program of Operations of "CONTRACTOR," which shall include the Annual Production Program and the corresponding Expenses, Capital and Financial Budgets. The Annual Production Program shall include, among other elements, the annual production level determined, taking into consideration the remaining reserves approved by the Ministry of Mines and Hydrocarbons, the characteristics of the reservoirs, the applicable conservation norms, the capacity of existing production installations, and market conditions.
6. To review semi-annually the Annual Production Program and approve any pertinent changes.
7. To approve semi-annually the hydrocarbon reserves submitted to it by the Technical Sub-Committee.
8. To receive annually the Financial Statements of "CONTRACTOR."
9. To recommend the implementation of the safety methods necessary for the protection of persons and facilities.
10. To approve the secondary recovery programs that may be necessary for the optimum recovery of crude from the reservoirs exploited on the basis of the program of operations.
11. To approve the bases for the granting of bids, as well as operating agreements and subcontracting.
12. To approve the "Dry Hole" Agreements with other companies.

13. To approve the operational and accounting conditions and procedures in accordance with the programs it establishes for the withdrawal by the parties of their corresponding petroleum, as provided in Paragraph Four of Clause Two of this Contract.

The Supervisory Committee shall have in addition, the functions and responsibilities which may be assigned to it by the Parties.

**10.4 Paragraph Four**

**Sub-Committees**

**Technical Sub-Committee**

**Composition:** The Technical Sub-Committee shall be composed of two (2) representatives of "CVP" and two (2) of "CONTRACTOR," and their respective alternates.

**Functions:** The Technical Sub-Committee shall have the following attributions:

1. To consider, reform or approve the development, exploitation, and production programs and budgets and to supervise their execution.
2. To approve the locations and exploration, development and outpost wells.
3. To approve the well drilling, completion, workover and abandonment programs.
4. To recommend the general conditions for the taking of bids for the drilling of the exploration, outpost or development wells, or reconditioning or abandonment works.
5. To approve the use of contracted equipment in the drilling, reconditioning and abandonment operations.
6. To approve the maximum efficient rates of production by well and by reservoir.
7. To approve the well testing methods and programs.
8. To approve the projects for crude production, treatment, gathering, storage and transportation facilities included in the operations program.
9. To approve the projects for secondary recovery.
10. To consider at least twice a year the applicable factors for the estimate of hydrocarbon reserves.
11. To approve the most efficient artificial lift methods for the contracted area.
12. To approve the programs of bottom hole pressure measurement.
13. To approve the models of reports for the adequate control of the operations.

The Technical Sub-Committee shall have, in addition, the functions and responsibilities assigned to it by the Supervisory Committee.

**Petroleum and Derivatives Marketing Sub-Committee**

**Composition:** The Marketing Sub-Committee shall be composed of two (2) representatives of "CVP" and two (2) of "CONTRACTOR" and their respective alternates.

### *Venezuela*

*First Meeting:* The first meeting of the Marketing Sub-Committee for Petroleum and Derivatives shall take place within thirty days following the selection of the first lot by "CONTRACTOR" and at said meeting the date shall be determined on which "CONTRACTOR" is to present a general report on its markets and export prices.

*Functions:* The Petroleum and Derivatives Marketing Sub-Committee in addition to the functions and duties assigned to it by the Supervisory Committee shall have the following attributions:

1. To consider, reform or approve the marketing programs taking into account for the fixing of the sales prices current commercial practices, fiscal laws, and the norms and recommendations of the Coordinating Commission for the Conservation and Trade of Hydrocarbons, as well as supervise the execution of such programs.
2. To analyze jointly with the Technical Sub-Committee the production program presented annually by "CONTRACTOR" with special emphasis on the export prices and on the markets for the crude produced.
3. To analyze in due time the information presented by "CONTRACTOR" pertinent to the offers for short, medium or long term sales, with indication of prices, volumes, and destination of the exports.
4. To analyze and verify in due time the reports presented by "CONTRACTOR" on sales already made.
5. To recommend the rules governing spot sales.

### *Administrative-Financial Sub-Committee*

*Composition:* The Administrative-Financial Sub-Committee shall be composed of two (2) representatives of "CVP" and two (2) of "CONTRACTOR" and their respective alternates.

*Functions:* The Administrative-Financial Sub-Committee in addition to the functions and duties assigned to it by the Supervisory Committee shall have the following attributions:

1. To consider, reform or approve the administration programs and to supervise their execution.
2. To analyze and approve the financial forecast showing the uses and needs of funds of "CONTRACTOR" to cover the programs, as well as the additional needs which may arise due to modifications made to said programs during the implementation of the budget.
3. To recommend and coordinate the elaboration and structure of a programming and budget system capable of allowing an efficient control of each of the programs and budgets approved by the Supervisory Committee.

This system must be structured in such a manner as to produce continuous and comparative information of the activity of "CONTRACTOR" to serve as a basis for the Supervisory Committee in the taking of decisions.

4. To supervise and verify the production cost of the petroleum retained by "CVP" with respect to the amount billed by "CONTRACTOR," and of the petroleum transferred to "CONTRACTOR" by "CVP," in order to determine the net profit per barrel of such petroleum, and to approve the elements of such cost not provided for in the Accounting Guide.
5. To make the necessary suggestions so as to recommend the systems, methods and procedures to be used by "CONTRACTOR."
6. To receive from "CONTRACTOR" an analysis of the economic and financial status of the companies participating in biddings to learn of their economic and financial backing.

*Legal Sub-Committee*

*Composition:* The Legal Sub-Committee shall be composed of one representative of "CVP" and one of "CONTRACTOR" and their respective alternates.

*Functions:* In addition to the functions and responsibilities assigned to it by the Supervisory Committee, the Legal Sub-Committee shall have that of advising the Committees and Sub-Committees on legal matters.

**10.5 Paragraph Five**

*Common Disposition for all Committees and Sub-Committees*

1. *Designation of Representatives:* Each Party shall notify the other Party in writing of the name of the persons designated as Principal Representatives and Alternates. Each Party shall have the right of substituting its Principal or Alternate representatives at any time by notifying the other Party in writing.
2. *Observers:* Observers of either of the Parties may attend the meetings of the Committees and Sub-Committees upon prior request of the interested Party. When the Observers or advisors are not officials of either Party, approval of the corresponding Committee or Sub-Committee shall be required.
3. *Meetings:* The Committees and Sub-Committees shall hold a regular meeting monthly in Caracas or any other location agreed upon by the Parties for such purposes and may hold special meetings whenever one of the Parties so requests it. The regular or special meetings of the Committees and Sub-Committees shall be called with at least five (5) working days prior notice and with the inclusion of the corresponding agenda, except in emergency cases.
4. *Decisions of the Sub-Committees:* The decisions of the Sub-Committees shall have the character of recommendations for the Supervisory Committee, but shall be binding upon the Parties if not modified by said Committee.
5. *Solving Divergences in the Sub-Committees:* In the case of divergences the Sub-Committees shall immediately take them to the Supervisory Committee for consideration.
6. *Solving Divergences in the Committees:* Should no agreement be reached in the Coordinating and Supervisory Committees, and unless otherwise indicated in this Contract, the following procedure will be followed:

*Venezuela*

- (a) The meeting shall be adjourned in order that the members may consult with the Party they represent and another meeting will be held within the week immediately following.
- (b) If the members of the Committee do not reach an agreement at such meeting, the matter will be taken to the level of special representatives appointed by the Director General of "CVP" and the President of "CONTRACTOR," in order to reach a solution within a period of not more than a week.
- (c) If such period has elapsed and no agreement has been reached between the said representatives, the matter shall be submitted for the consideration of the Director General of "CVP" and the President of "CONTRACTOR," who shall resolve the matter in the shortest possible time.
- (d) The Director General of "CVP" and the President of "CONTRACTOR," for the solving of the divergence in question, shall take into account the criteria which shall be the basis for the elaboration and execution of plans, programs and budgets, in the following manner:
  - (i) If dealing with the Additional Exploration Programs, the object of the Contract indicated in Clause Two, the provisions of Paragraph Five of Clause Six and the geological interpretation resulting from the activities already carried out shall be taken into account.
  - (ii) If dealing with the annual plans, programs and budgets, the yield of the investments as provided in Clause Seven, the object of this Contract as indicated in Clause Two, Clause Nine, and Paragraph Six of Clause Ten shall be taken into account.
- (e) The Director General of "CVP" and the President of "CONTRACTOR," no later than November 30th of each year and taking into account the criteria indicated in the preceding letter, shall decide on the manner in which the operations shall continue, to which purpose they shall apply the greatest efforts with the best willingness and spirit of cooperation. However, if on such date they have not arrived at an agreement, production shall continue at the present level or at the one proposed by "CONTRACTOR," whichever is higher, without detriment of the applicable conservation norms, until such time as the matter under discussion is definitely solved. The procedure established in this Clause shall be applied without prejudice of the rights or actions corresponding to the Parties under this Contract.

**7. Quorum:**

In order to have a quorum in the Committees and Sub-Committees, at least one principal member or alternate of each Party must be present. All decisions of the Committees and Sub-Committees shall be adopted unanimously. If no quorum is present, a second meeting will be called within the next seven (7) days; if at this second meeting there is no quorum either, the President or Director General of the absent Party shall be notified that a third meeting will be held within the next seven (7) days in order that they may take the

necessary measures with the object of achieving the quorum required. If at this third meeting no quorum can be achieved either, it shall be considered that the absent Party has voted negatively, and then the matters object of the meeting shall be immediately passed on to the Supervisory Committee if the lack of quorum occurred at any of the Sub-Committees, or to the joint consideration of the Director General of "CVP" and of the President of "CONTRACTOR" if the lack of quorum occurred in any of the Committees.

8. *Secretary of the Committees and Sub-Committees:* One (1) of the members of each Committee or Sub-Committee shall act as Secretary. The Parties will alternate in the annual selection of the Secretary to be appointed.
9. *Functions of the Secretaries:* The Secretaries shall have among their functions, besides any others that may be assigned to them, those of calling the meetings, drawing up the Minutes of the Meetings in Spanish, numbering them consecutively and having them signed by the representatives of the Parties, among whom they will distribute copies of same.

#### 10.6 Paragraph Six

##### *Presentation of Programs and Budgets*

"CONTRACTOR" shall present to the Supervisory Committee its annual program of operations for the following year no later than June 30th of each year, and for the first time thirty days after selection of the first lot by "CONTRACTOR," with the object of initiating the consideration of said program in order to approve or amend it and allow "CVP" to evaluate sufficiently the programmed activities. No later than July 31st of each year the Supervisory Committee shall approve or amend said annual program of operations, after prior analysis by the respective Sub-Committees.

No later than September 30th of each year, "CONTRACTOR" shall submit to the Supervisory Committee the expense, capital and financial budgets together with the Annual Program of Operations approved. On this same occasion "CONTRACTOR" shall present a Five-Year Plan with respect to the estimated projects it has planned for the next five (5) years.

No later than October 31st of each year, the Supervisory Committee shall approve or amend the budgets submitted.

No later than November 30th of each year, the Supervisory Committee shall make the adjustments and modifications it considers necessary to the Annual Program of Operations and to the expense, capital and financial budgets approved. The Annual Program of Operations will include, among others, the following programs:

1. Geophysical Survey.
2. Exploratory, step-out and development drilling.
3. Production and Exportation with indication of volumes, prices and destination of the crude.
4. Projects for the Construction and Installation of Facilities for the Production,

## *Venezuela*

Gathering, Treating and Storage, Fiscalization, Transportation and Delivery of the Crude.

5. Abandonment or Reconditioning of Wells.
6. Artificial Lift.
7. Secondary Recovery.
8. Training of Personnel.

The plans, programs and budgets to be elaborated and approved as herein provided, shall have as objectives the exploration of Block "C," the development and production of the exploitation area exclusively, the transportation of the petroleum to the point of delivery in the most economical and efficient manner in accordance with the practices normally used in the oil industry, and the sale by "CONTRACTOR" in the international markets of the volume of petroleum "CVP" will transfer to it as provided in Paragraph One of Clause Second of this Contract.

### *10.7 Paragraph Seven*

#### *Emergency Outlays*

"CONTRACTOR" is authorized in case of emergency in the operations to take the measures necessary in its judgment to solve the emergency, but as soon as possible "CONTRACTOR" shall inform the Supervisory Committee on the nature of the emergency, the measures taken and the expenses made.

### *10.8 Paragraph Eight*

#### *Information on the Activities carried out*

"CONTRACTOR" shall keep "CVP" continuously informed of all activities carried out, shall furnish it with any type of information it may request with respect to the contracted services and shall present it with an annual report of the activities carried out during the year elapsed, in a manner similar to that required by the Ministry of Mines and Hydrocarbons.

### *10.9 Paragraph Nine*

#### *Conservation Measures*

"CONTRACTOR" agrees to comply with the measures dictated or to be dictated by the Ministry of Mines and Hydrocarbons on the conservation of the energy of the reservoirs and of the gas that may be produced.

### *10.10 Paragraph Ten*

#### *Unitization and Operating Agreements*

In the cases of common reservoirs or where it is advisable to enter into operating agreements for the achievement of maximum economy and efficiency in the exploitation, the corresponding agreements shall be entered into with the joint representation of "CVP" and "CONTRACTOR" in each area. The agreements to be entered into must have previous approval of the Ministry of Mines and Hydrocarbons.

**10.11 Paragraph Eleven**

***"CONTRACTOR's" Personnel***

"CONTRACTOR's" personnel shall be Venezuelan. Only in cases where specialized technical personnel is required and not available in Venezuela, may "CONTRACTOR," except as otherwise provided for in the corresponding Collective Contracts, and with the prior authorization of the competent bodies, hire foreigners for a limited time provided they simultaneously train Venezuelans in the corresponding specialties.

**10.12 Paragraph Twelve**

***Purchases and Local Services***

"CONTRACTOR" shall make its purchases in and shall contract services from suppliers and natural or legal persons domiciled in Venezuela. Only in those cases where the goods, materials, equipment or machinery and specialized services do not exist in the country or do not satisfy required normal specifications, can they be obtained abroad with the prior fulfillment of the legal requirements.

**10.13 Paragraph Thirteen**

***Inspection and Fiscalization***

The works and activities of "CONTRACTOR" shall all be subject to be provisions of Chapter III of the Law of Hydrocarbons and its regulations.

**CLAUSE ELEVEN**

**MARKETING**

11.0 As provided in Paragraph One of Clause Two of this Agreement and subject to the marketing programs approved by the Marketing Sub-Committee and the Supervisory Committee, "CONTRACTOR" shall place on the international markets the petroleum it receives from "CVP."

**11.1 Paragraph One**

**I. Criteria for the fixing of Prices**

Contractor shall sell such petroleum at the commercial price fixed by the Marketing Sub-Committee and approved by the Supervisory Committee taking into account current business practices, the fiscal laws and the norms and recommendations of the Coordinating Commission for the Conservation and Trade of Hydrocarbons.

**II. Solving divergences in case of disagreement in the fixing of prices in non-programmed sales.**

In case of disagreement in the fixing of price corresponding to sales not included in the Annual Marketing Program presented by "CONTRACTOR" in accordance with the provisions of Paragraph Six of Clause Ten, the following procedure shall be followed:

*Venezuela*

- (a) In case no agreement can be reached on the sales price within fourteen (14) days following the date on which "CONTRACTOR" has proposed it in the Marketing Sub-Committee, the Supervisory Committee shall fix as price the average of the FOB export prices billed by "CONTRACTOR" for crude petroleum of the same type and quality, sold with the prior approval of the Supervisory Committee during the three (3) months immediately preceding the date on which "CONTRACTOR" has proposed the price under discussion.
- (b) In order to determine the mentioned average price, the amounts at FOB export prices of all the invoices relative to sales of petroleum of the same type and quality made during the mentioned period in accordance with the provisions of letter (a) of this Paragraph shall be summed up and the result of said sum shall be divided by the total amount of barrels of petroleum to which such invoices refer.
- (c) If such average price cannot be established, or if such price is not approved by the Marketing Sub-Committee, the average price of the FOB export prices in Venezuelan terminals for all petroleums of similar quality and characteristics sold by third parties under commercial conditions during the immediately preceding three (3) months shall be applied, making the necessary adjustments to take into account the differences in quality and characteristics of the petroleum between the different export terminals. Said average price shall be determined by the Coordinating Commission for the Conservation and Trade of Hydrocarbons, in a motivated manner and indicating the method used for the determination of said average price.
- (d) The Marketing Sub-Committee shall determine the procedures applicable to convert any other type of price to its FOB export equivalent.

*III. Solving divergences in case of disagreement in the fixing of prices for programmed sales*

In case of disagreement in the fixing of the prices corresponding to sales included in the Annual Marketing Program presented by "CONTRACTOR," in accordance with the provisions of Paragraph Six of Clause Ten, the procedure indicated in number 6 of Paragraph Five of said Clause shall be followed, but the same procedure as contemplated in item II. of the present Paragraph shall be applied if by November 30th of the corresponding year no agreement has been reached on the prices of the mentioned sales. In these cases, the average of the FOB prices to which letters (a) and (c) of item II. of the present Paragraph refer shall be that corresponding to the immediately preceding three (3) months of the date on which the respective sales contract is formalized.

However, any of the parties may exercise the rights and actions corresponding to them under this Contract within two months following the date on which the respective sales contract object of the disagreement has been formalized.

**11.2 Paragraph Two**

***Option of "CVP" to acquire Petroleum***

In case "CONTRACTOR" should present to the Marketing Sub-Committee offers from third parties (non-affiliated companies) for the purchase of crude whose price, term and conditions are not considered acceptable by "CVP's" representatives in the Sub-Committee, "CVP" may acquire such petroleum at the same price, term and conditions of payment as those presented by "CONTRACTOR" within twenty (20) days following the moment of the objection by "CVP" in the Marketing Sub-Committee.

**11.3 Paragraph Three**

***Spot Sales***

"CONTRACTOR" may effect transactions of the type called spot sales before the price has been established in accordance with the provisions of this Clause, provided the circumstances so advise it in accordance with the regulations the Supervisory Committee may approve for such purpose. When the price established by the Supervisory Committee for such transaction is different from the price at which same would have been realized, the price established by the Supervisory Committee shall be substituted for the price of said realization for all purposes of this Contract, except for future fixings of the average price referred to in letters (a) and (c) of Paragraph One of this Clause.

**CLAUSE TWELVE**

**REFINING IN THE COUNTRY**

12.0 "CVP" and "CONTRACTOR" shall, on their own initiative or at the request of the National Executive, enter into contracts for refining within the country all or part of the petroleum transferred to "CONTRACTOR" in accordance with Paragraph One of Clause Two hereof. The draft agreement reached by "CVP" and "CONTRACTOR" must be authorized by the National Executive and approved by the Congress of the Republic.

**CLAUSE THIRTEEN**

**NON-TRANSFERABILITY OF THE EXPLORATION AND EXPLOITATION RIGHTS**

13.0 In accordance with Article 3 of the Law of Hydrocarbons and Article 4 of the By-Laws of "CVP," "CONTRACTOR" does not acquire any rights in the reserves discovered and "CVP" does not alienate or encumber the rights to explore and exploit hydrocarbons which were transferred to it and which cannot be the object of foreclosure by third parties.

*Venezuela*

**CLAUSE FOURTEEN**

**ASSIGNMENT OR TRANSFER OF CONTRACT**

14.0 This Contract has been executed taking very much into account the technical capability and experience of "CONTRACTOR" in oil industry operations and in activities related to same, as well as the economic and financial backing proved by same. Therefore, "CONTRACTOR" agrees not to assign or transfer all or any part of this Contract without prior authorization by "CVP" and approval by the National Executive, both in writing.

"CONTRACTOR" may subcontract individual operations with the authorization of the Coordinating Committee or the Supervisory Committee, as the case may be.

**CLAUSE FIFTEEN**

**REVERSION TO THE NATION OF THE LANDS, WORKS, AND OTHER PROPERTIES DESTINED TO THE OBJECT OF THIS SERVICE CONTRACT**

15.0 As provided in Article 3, Ordinal 2, Numeral 5 of the Law of Hydrocarbons, the lands and permanent works, including the facilities, accessories and equipment forming an integral part of them and any other properties acquired for the object of this Agreement, whatever the title of acquisition, shall be preserved for delivery in fee to the Nation at the extinguishment of this Contract for any cause whatsoever.

**15.1 Paragraph One**

*Vigilance by "CVP"*

"CVP" shall assist the Minister of Mines and Hydrocarbons in the due vigilance in order that "CONTRACTOR" maintain and give appropriate use to the properties that will pass in fee to the Nation.

**15.2 Paragraph Two**

*Acts of Administration and Disposal*

When the efficiency of the operation leading to the economic development of the contracted area justifies the alienation, removal, exchange or any other act with respect to such properties which may affect the right of the Nation, "CVP" on its own initiative or at the request of "CONTRACTOR," shall handle the necessary request before the National Executive which, if it so deems convenient, shall give the necessary authorization to proceed with the respective action.

**CLAUSE SIXTEEN**

**FINANCIAL OBLIGATIONS OF "CONTRACTOR"**

16.0 "CONTRACTOR" shall provide for its exclusive account, the capital required to make the investments, operating expenses and any other outlays required for the fulfillment of the obligations it assumes under this Contract.

*Sole Paragraph*

*Non-Deductibility of Losses*

"CONTRACTOR" agrees that such investments, expenses and expenditures are for its exclusive risk and that consequently neither "CONTRACTOR" nor its shareholders shall deduct the losses which may result from these operations from any other taxable income resulting from activities different from those contemplated by this Contract that either "CONTRACTOR" or its shareholders may have obtained or may obtain within the country.

CLAUSE SEVENTEEN

FINANCIAL PARTICIPATION OF "CVP"

17.0 "CONTRACTOR" shall pay "CVP" the financial participation consisting of the following elements:

17.1 *Paragraph One*

*Bonuses*

*Contracting Bonus*

"CONTRACTOR" shall pay "CVP" a cash bonus of five million dollars of the United States of America (U.S. \$5,000,000) thirty (30) days after execution of the Contract.

*Production Bonuses*

- (a) "CONTRACTOR" shall pay "CVP" a two million United States of America dollar (U.S. \$2,000,000) cash bonus, when it selects the first lot.
- (b) When fiscalized production of crude petroleum from the lots selected by "CONTRACTOR" reaches for the first time the amount of twenty-five thousand (25,000) barrels per day, "CONTRACTOR" shall pay "CVP" a one million United States of America dollar (U.S. \$1,000,000) cash bonus; for each five thousand (5,000) barrels per day increment above the twenty-five thousand (25,000) and up to fifty thousand (50,000) barrels daily, "CONTRACTOR" shall pay "CVP" a two hundred and fifty thousand United States of America dollar (U.S. \$250,000) cash bonus; for each five thousand (5,000) barrels per day increment above the fifty thousand (50,000) barrels and up to seventy-five thousand (75,000) barrels daily, "CONTRACTOR" shall pay "CVP" a three hundred thousand United States of America dollar (U.S. \$300,000) cash bonus; for each five thousand (5,000) barrels per day increment above seventy-five thousand (75,000) barrels and up to one hundred thousand (100,000) barrels daily, "CONTRACTOR" shall pay "CVP" a three hundred and fifty thousand United States of America dollar (U.S. \$350,000) cash bonus; for each twenty-five thousand (25,000) barrels per day increment above the one hundred thousand (100,000) barrels and up to one hundred and fifty thousand (150,000) barrels daily, "CONTRACTOR"

## *Venezuela*

shall pay "CVP" a two million five hundred thousand United States of America dollar (U.S. \$2,500,000) cash bonus, and, lastly, for each twenty-five thousand (25,000) barrels per day increment above the one hundred and fifty thousand (150,000) barrels and up to two hundred thousand (200,000) barrels daily, "CONTRACTOR" shall pay "CVP" a three million five hundred thousand United States of America dollar (U.S. \$3,500,000) cash bonus.

### *Option of "CVP"*

"CVP" shall have the option of requesting from "CONTRACTOR" the payment of all the cash bonuses provided for in this Paragraph in United States of America dollars or in bolivars calculated at the official rate of exchange applicable to the oil industry at the time of payment.

### *Non-Deductibility and non-chargeability of the Bonuses*

"CONTRACTOR" shall not deduct these cash bonuses as provided in this Paragraph from its net profits for the purposes of the additional participation to which Paragraph Three of this Clause refers, nor shall they be chargeable to costs or deductible as expenses or amortized for income tax purposes, nor shall they be chargeable to the cost of the petroleum to be retained by "CVP" as provided in Paragraph One of Clause Second hereof.

## **17.2 Paragraph Two**

### *Depletion*

"CONTRACTOR" shall pay "CVP" for depletion an amount equivalent to five percent (5 %) of the Exploitation Tax paid by "CONTRACTOR" as provided in Clause Nineteen.

## **17.3 Paragraph Three**

### *Additional Participation by "CVP" according to Productivity*

"CONTRACTOR" shall pay "CVP" annually in the month of April of each year an additional participation on the basis of the net profit per barrel obtained by "CONTRACTOR" during the immediately preceding fiscal year and determined as provided in the attached Accounting Guide. Said additional participation shall be calculated in accordance with the following table:

<i>Net profit of "CONTRACTOR" per Barrel in United States of America Cents</i>	<i>Additional Participation of "CVP" in United States of America Cents in the Net Profits per Barrel</i>
Less than 18	0.0
Of 18	0.3
" 21	0.6
" 25	1.1
" 30	2.2
" 35	3.5
" 40	5.6
" 45	7.9
" 50	10.4

*Selected Documents — 1971*

Should the level of profit exceed \$0.50 per barrel, "CVP" shall receive in addition fifty-five percent (55 %) of the excess.

When the net profit per barrel of "CONTRACTOR" is within two values of this table, the additional participation of "CVP" shall be determined by means of linear interpolation, as applied in the following example:

If for a certain fiscal year the net profit of "CONTRACTOR" reaches 38 cents per barrel, "CVP's" additional participation shall be calculated as follows:

*Values of the additional participation according to table:*

<i>Net profit</i>	<i>Additional Participation</i>
35	3.5
40	5.6

The additional participation of "CVP" corresponding to 38 would be:

$$Y\ 38 = \frac{5.6 - 3.5}{40 - 35} (38 - 35) + 3.5 = 4.76$$

that is: 4.76

For the determination of the net profit per barrel, only the petroleum which has been transferred to it by "CVP," as provided in Paragraph One of Clause Two of this Contract, shall be taken into account by "CONTRACTOR."

#### 17.4 Paragraph Four

##### *Option of "CVP" to participate in the Capital Stock of "CONTRACTOR"*

As soon as commercial production has been determined as provided in Clause Seven of this Contract and within one hundred and eighty (180) days following the selection by "CONTRACTOR" of the first lot, "CVP" may exercise the right to acquire ten percent (10 %) of the shares of the paid in capital stock of "CONTRACTOR," through payment to the other shareholders of the corresponding nominal value of the shares to be acquired by "CVP."

## CLAUSE EIGHTEEN

### SPECIAL ADVANTAGE

- 18.0 "CONTRACTOR" agrees, after compliance with the corresponding legal formalities, to carry out at its own cost a research program in Tar Belt in Eastern Venezuela, with an investment of eight hundred thousand United States of America dollars (U.S. \$800,000). The program shall be initiated within the year following publication of this Contract in the Official Gazette of the Republic of Venezuela. The amount of eight hundred thousand United States of America dollars (U.S. \$800,000) shall be spent in the following four (4) years, unless both parties, by mutual agreement consider it convenient to extend this period. The project shall consist of field experiments with "in situ" combustion technique, or, with the prior consent of "CVP," with any other technique, for the recovery of crudes

### *Venezuela*

in the Tar Belt and designed to evaluate the operating requirements, production rates and efficiency of recovery of the obtainable petroleum. The field operations shall be supplemented with the necessary laboratory experiments to be conducted in the Research Center of a company affiliated with "CONTRACTOR" in the United States of America.

The project of field investigations shall be conducted in four (4) phases. A detailed explanation of this research project of the Tar Belt is the object of Exhibit "E," which forms a part of this Contract.

The cost of this program shall not be deductible from the net profits for purposes of the additional participation to which Paragraph Three of Clause 17 of this Contract refers, nor shall it be imputed to cost or deducted as expense or amortized for purposes of the income tax, nor shall it be imputed to the cost of the petroleum retained by "CVP," as provided in Paragraph One of Clause Two of this Agreement.

## CLAUSE NINETEEN

### TAX REGIME

19.0 "CONTRACTOR" shall pay the National Treasury, in the name and for the account and order of "CVP," the amount of the taxes, contributions and other fiscal obligations established in the Law of Hydrocarbons, with the limitations contemplated at the end of the first part of Article 46 of said Law, and shall charge them as costs in the production of the petroleum. The exploitation tax and other taxes, contributions and fiscal obligations as provided in the Law of Hydrocarbons shall be paid as provided in said Law and in its Regulations and subject to the provisions of the Accounting Guide attached hereto. In case the National Executive elects to receive such tax in cash, said tax shall be calculated on the basis of the agreement which "CVP" shall sign with the National Executive for the payment of royalties taking as a basis the royalty reference prices of the agreements in force for similar hydrocarbons, it being understood that the realization prices obtained over the reference prices determined in accordance with the abovementioned agreements, shall prevail over such reference prices. The reference prices for royalties shall be equal to those in force for concessionaires.

## CLAUSE TWENTY

### PAYMENT OF THE TAXES

20.0 "CONTRACTOR" shall pay in its own name and for its own account the other taxes applicable to it by reason of the activities it is carrying out in the country, including the income tax, as established in existing legal and regulatory dispositions and in those which may be issued in the future by the appropriate government authorities.

**CLAUSE TWENTY-ONE**

**ACCOUNTING SYSTEM AND AUDITING**

21.0 "CONTRACTOR" shall adopt an accounting system and a code of accounts based on the agreed upon Accounting Guide attached hereto.

"CVP" shall perform audits within the six (6) months following the closing of each fiscal year as well as accounting investigations in the books and other documents of "CONTRACTOR" as provided under letter (f), paragraph 3 of said Guide. Everything related to cost accounting, investments, expenses and the methods of depreciation and amortization shall be governed by said Accounting Guide.

**CLAUSE TWENTY-TWO**

**CAUSES OF CANCELLATION OF THIS CONTRACT**

22.0 In addition to the causes of cancellation provided for the exploratory stage, this Contract shall be terminated in the following cases:

- (a) When "CONTRACTOR" does not pay, in the name of, for the account of and by order of "CVP," the amount of the fiscal obligations to which Clause Nineteen hereof refers, within the term established in Article 75 of the Law of Hydrocarbons. The termination of this Contract for the abovementioned cause shall operate as a matter of law.
- (b) When "CONTRACTOR," once selection has been made and the required production facilities have been built, does not commence the production of the petroleum discovered or when it voluntarily substantially diminishes the annual production to levels not in agreement with those approved by the Supervisory Committee, as indicated in Clause Nine of this Contract.
- (c) For totally or partially ceding this Contract without the prior authorization of "CVP" and approval of the National Executive.

**22.1 Paragraph One**

***Notice in Case of Default***

If one of the Parties considers that the other has incurred in a default of this Contract, it shall notify the other Party in writing, specifying the fault it is alleging and requesting that such fault be remedied within the ninety days following receipt of the notification. If within such ninety day period the other Party has not remedied such fault, the prejudiced Party may, if it so wishes, request the termination of this Contract before Venezuelan Courts or request its fulfillment; in any case it shall be entitled to claim the damages that such fault may have caused.

## *Venezuela*

### **22.2 Paragraph Two**

#### *Damages and Execution of Judgment*

If as provided in the above Paragraph it is demonstrated at the request of "CVP" that "CONTRACTOR" has incurred an unfulfillment of this Contract and its performance is ordered or said Contract is pronounced as terminated, or if the termination is due to the provisions foreseen in letter (a) of this Clause, once the damages caused have been judicially determined, "CVP" may request the execution of the sentence against "CONTRACTOR" or execute the performance bond granted for the purposes of this Contract.

### **22.3 Paragraph Three**

#### *Safeguard of the Interests of the National Treasury*

The termination of this Contract shall occur without prejudice or detriment of any of the interests of the National Treasury which shall conserve with all vigor the rights and actions corresponding to it on the taxes and contributions "CONTRACTOR" may have to pay at the time on which the termination of this Contract may occur.

## **CLAUSE TWENTY-THREE**

### **CANCELLATION OF THE CONTRACT BY "CONTRACTOR" DURING THE EXPLOITATION STAGE**

23.0 "CONTRACTOR" may terminate this Contract during the exploitation period if at any time it demonstrates in an authentic manner that the economic conditions of the exploitation of the recoverable petroleum have changed in such a way that its continuation would not be economically attractive for "CONTRACTOR." For this purpose an economic projection from that moment until the end of the exploitation period to which Clause Four refers shall be made, taking into account the remaining recoverable reserves in the exploitation area during the remaining period. To effect such economic projection the sales income of "CONTRACTOR" shall be calculated at the applicable realization prices. From the year to year income, the exploration, development, exploitation, tax, participations and other applicable costs shall be deducted in accordance with the attached Accounting Guide. To the series of net profits thus obtained the corresponding annual depreciation and amortization shall be added. This series of cash flows shall be adjusted against the book value of the assets and the investments that may be necessary during the remaining years until expiration of the Contract, in order to obtain a series of Adjusted Flows, to which the "CONTRACTOR" shall apply a reasonable discount rate which should be based on the same criteria and elements of judgment used and accepted for the determination of commercial production. If the result of the algebraic sum of the discounted values is a negative amount, it shall be considered that the continuation of the Contract is not economically attractive to "CONTRACTOR."

**23.1 Paragraph One**

*Notice to "CVP" by "CONTRACTOR"*

For the purposes of this Clause "CONTRACTOR" shall notify "CVP" no later than December 31st of any year, that it will make the termination of the Contract effective on the 31st of December of the following calendar year, unless in the same notice it expresses its decision not to continue operating during said calendar year in which case it shall continue operations until the 31st of January of the year of notice. The year of notice is understood to be that comprised between the first of January and the thirty-first of December immediately following said date of notice by "CONTRACTOR." In order for the termination to be effective, "CONTRACTOR" shall be solvent in all its obligations with the National Treasury.

**23.2 Paragraph Two**

*Continuation of the Activities by "CONTRACTOR"*

If "CONTRACTOR" at the indicated time has not expressed its desire to continue operating during the calendar year of the notice, it shall carry out the operations normally during such year in accordance with the corresponding program and budget approved by the Supervisory Committee, disposing of the petroleum corresponding to it and fulfilling all obligations it has assumed under this Contract. However, "CVP" may assume the operations at any time during the course of the year of notice, in which case "CONTRACTOR" shall be free of all obligations hereunder from the date on which "CVP" assumes the operations, except for those obligations contracted before said date and which may still be pending.

**23.3 Paragraph Three**

*Indemnification of "CVP" by "CONTRACTOR"*

If "CONTRACTOR" at the indicated time expresses its decision not to continue operating during the calendar year of the notice, it shall pay "CVP" the following as indemnity:

- (a) The amount of the expenses and investments contemplated in the budget and program approved for such year, and
- (b) An amount equivalent to that which would have corresponded to "CVP" under this Contract, if "CONTRACTOR" had continued operating during the calendar year of the notice.

**CLAUSE TWENTY-FOUR**

**FORCE MAJEURE**

**24.0** The failure or delay in the fulfillment of any of the obligations of this Contract shall be considered as a non-execution violation or non-fulfillment of same, if such failure or delay is due to a fortuitous case or force majeure. Labor conflicts, strikes, any order or requirement of a legitimate authority, explosions, wars and

### *Venezuela*

blockades, sabotages, riots, fires, floods, tornados, hurricanes, tsunamis, seaquakes, lightning, and other acts of God, shall be considered as such provided that in the occurrence of such acts the affected Party has exercised due care and diligence to reasonably control, avoid or prevent the act and the damaging consequences of same.

#### *Sole Paragraph*

#### *Notification of the Force Majeure*

Any of the Parties to this Contract which is unable to comply with any obligation of same due to force majeure shall notify the other Party in writing, as soon as possible, of the cause of such failure and shall renew the fulfillment, if it were the case, within a reasonable period after the force majeure has disappeared. In no case and for no reason whatsoever shall the duration of the present Contract be extended beyond the twenty-three (23) year period provided for in Clause Four of same.

## CLAUSE TWENTY-FIVE

### APPLICATION OF THE LAW OF HYDROCARBONS AND ITS REGULATIONS

25.0 The provisions of the Law of Hydrocarbons and its Regulations shall be applicable to this Contract insofar as they are compatible.

#### *Sole Paragraph*

*Authorization to "CONTRACTOR" for the exercise of "CVP's" complementary rights*

In order to assist "CONTRACTOR" in the performance of the activities foreseen in Clause Two of this Contract, "CVP" authorizes "CONTRACTOR" to exercise in its name and representation the complementary rights corresponding to "CVP" in accordance with the Law of Hydrocarbons and its Regulations, and to such purpose "CONTRACTOR" may solicit the constitution of the pertinent surface rights, right of way, exoneration from taxes or import duties, or any other pertinent complementary rights.

## CLAUSE TWENTY-SIX

### JURISDICTION OF THE COURTS OF VENEZUELA AND APPLICATION OF ITS LAWS

26.0 The doubts and controversies which may arise in the performance of this Contract and which cannot be solved amicably, shall be decided by the competent Courts of Venezuela in accordance with its laws and for no reason nor cause shall they give rise to foreign claims.

*Selected Documents — 1971*

**CLAUSE TWENTY-SEVEN**

**PERFORMANCE BOND**

27.0 I, Harold J. Fitzgeorge, in my character of attorney of Mobil Oil Company de Venezuela and duly authorized for this act as per power of attorney, a certified copy of which is attached in order that as an exhibit it may form part of this Contract, declare that whereas my principal, MOBIL OIL COMPANY DE VENEZUELA, was the company selected by the Corporación Venezolana del Petróleo from among the offers it promoted for the executing of a Service Contract for the exploration and exploitation of the Block called "C" sufficiently identified in Clause Three of this Agreement; and whereas for the execution of this Contract my principal has organized (domiciled) in accordance with the laws of Venezuela the company called MOBIL MARACAIBO, C.A.; therefore, I hereby constitute my principal as solidary guarantor and principal payer to guarantee to the Corporación Venezolana del Petróleo the true performance of each and every one of the obligations assumed under the present Contract by the "CONTRACTOR" MOBIL MARACAIBO, C.A. during its life and until its total and full termination.

**CLAUSE TWENTY-EIGHT**

**DOMICILE**

28.0 For all purposes of this Contract, the city of Caracas, Venezuela, to whose Courts the executing Parties agree to submit themselves, has been elected as special domicile with exclusion of any other.

In accordance with the above, the present contract is executed in four (4) copies of the same tenor and to one sole effect, in the city of Caracas, on the 16th day of the month of September of the year nineteen hundred and seventy-one.

For CORPORACIÓN VENEZOLANA  
DEL PETRÓLEO ("CVP")

Maurice Valery N.  
Director General

For MOBIL MARACAIBO, C.A.  
("CONTRACTOR")

Rómulo Quintero V.  
Attorney in Fact

Adolfo Nass R.  
Attorney in Fact

Emilio Spósito Jiménez  
Attorney in Fact

For MOBIL OIL COMPANY  
DE VENEZUELA ("GUARANTOR")

Harold J. Fitzgeorge  
Attorney in Fact

## **CHAPTER IX**

### **Opec Agreements**

#### **TEHRAN PRICE AGREEMENT**

Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia (the said six States being hereinafter known as "the Gulf States" insofar as their exports from the Gulf are concerned) and the Companies listed in Annex 1 and their affiliates (hereinafter known as "the Companies"), to establish security of supply and stability in financial arrangements agree:

1. The existing arrangements between each of the Gulf States and each of the Companies to which this Agreement is an overall amendment, will continue to be valid in accordance with their terms.
2. The following provisions constitute a settlement of the terms relating to government take and other financial obligations of the Companies operating in the Gulf States as to the subject matters referred to in OPEC Resolutions and as regards oil exported from the Gulf, for a period from 15th February 1971 through 31st December 1975. These provisions shall be binding on both the Gulf States and the Companies for the said period.
3. These provisions are:
  - (a) During this Agreement no Gulf State will seek any increase in government take or other financial obligations over that now agreed regarding Gulf production, as a result of:
    1. The application of different terms in:
      - (i) any Gulf State as a Mediterranean exporter; or
      - (ii) any Mediterranean producer; or
      - (iii) any producer from any other area; or
    2. The breach of contract through unilateral action by any Government in the Gulf; or

*Selected Documents — 1971*

3. The elimination of existing disparities in the Gulf under paragraph (c) (2) (iv) or any settlement under paragraph (c) (3) THIRDLY; or
  4. The application of different terms to any future agreement in any country bordering on the Gulf.
- (b) The requirements of the six Member Countries of OPEC bordering the Gulf under OPEC Resolutions XXI. 120 and XXII. 131 are satisfied by the terms of this Agreement. During the period of this Agreement the Gulf States shall not take any action in the Gulf to support any OPEC member which may demand either any increase in government take above the terms now agreed, or any increase in government take or any other matter not covered by Resolution XXI. 120.
- (c) 1. Total tax rates on income shall be stabilized in accordance with existing arrangements, except that insofar as present tax laws provide for total rates lower than 55 percent, the Companies concerned will submit to an amendment to the relevant income tax laws raising the total rates to 55 percent.
2. In satisfaction of the several claims arising out of paragraphs 2 and 3 of OPEC Resolution XXI. 120.
- (i) Each of the Companies shall uniformly increase as from the effective date its crude posted prices at the Gulf terminals of the Gulf States by 33 cents per barrel.
  - (ii) (aa) Each of the Companies shall make further upward adjustments to its crude posted prices to the nearest tenth\* of a cent per barrel by increasing on 1st June 1971 each of such posted prices by an amount equal to 2½ % of such posted price on the day following the effective date. On 1st January of each of the years 1973 through 1975 a further increase to the nearest tenth of a cent shall be made in each such posted price equivalent to 2½ % of the posted price prevailing on 31st December of the preceding year.
  - (bb) Each of the Companies shall increase its crude posted prices on 1st June 1971 by 5 cents per barrel and by a further increase of 5 cents per barrel on 1st January in each of the years 1973—1975.
  - (cc) Each of the Companies shall further increase its crude posted prices as from the effective date by 2 cents per barrel which, together with paragraph 3 (d) is in satisfaction of claims related to freight disparities.
- (iii) The increases included in (ii) above shall be in satisfaction of claims in respect of freight, escalation and of inflation under both OPEC

---

\* For each decimal fraction of a cent of 0.05 cents or above, the amount is to be increased to the next higher whole 0.1 cent. For each decimal fraction of a cent below 0.05 cents, the amount is decreased by this fraction.

### *Opel Agreements*

Resolution XXI. 120 and OPEC Resolution XXI. 122, and also in satisfaction of certain other economic considerations raised by the Gulf States.

- (iv) Each of the Gulf States having an existing claim under negotiation based on posted price disparity has discussed and resolved such claim with the Companies exporting the crude grade concerned as follows:

In case of Iranian Heavy, Saudi Arab Medium and Kuwait, the posted prices shall each be increased by the Companies concerned by one cent with effect from the effective date. In the case of Basrah after the adjustment provided for in (3) FIRSTLY the posted price will be \$1.805 for 35° API.

3. *Firstly* For crude oil API gravity 30.0° to 39.9° with effect from the effective date each posted price shall be further increased by the Companies by 1/2 cent per barrel for each degree such crude is less than API° 40. A table showing the resulting increases before taking into account the settlement of disparities under (c) (2) (iv) is attached (Annexe 2) and forms part of this Agreement.

*Secondly* Posted prices shall apply to shipments falling within the range of .0 to .09 degrees of any full degree of API gravity and shall be subject to a gravity differential on the basis of 0.15 cents per barrel for each full 0.1 degree API.

*Thirdly* In the case of crudes under 30° API the Governments and Companies shall agree on a basis for adjusting the posted price. However, if no such agreement is reached the same principles applied in FIRSTLY and SECONDLY above shall apply.

The existing percent allowance, the gravity allowance and the 1/2 cent per barrel marketing allowance shall be eliminated as from the effective date of this Agreement.

- (d) If Libya is receiving a premium for short haul crude which premium is to fluctuate according to freight conditions in accordance with a freight formula and if in respect of any period the premium applied by any major oil company which has production in Libya and the Gulf States exceeds for any reason the lowest level permitted by such formula for such period the Gulf States shall be entitled to additional payments as set out in Annexe 3.

4. "Affiliate" shall mean in relation to any Company, any company which is wholly or partly owned directly or indirectly by that Company.

5. Each of the Gulf States accepts that the Companies' undertakings hereunder constitute a fair appropriate and final settlement between each of them, and those of the Companies operating within their respective jurisdictions, of all matters related to the applicable bases of taxation and the levels of posted prices up to the effective date.

*Selected Documents — 1971*

6. The effective date of this Agreement shall be 15th February 1971.  
Done this 14th day of February 1971 at  
Tehran, Iran.

For the Gulf States:

Mana Saeed Otaiba  
Abu Dhabi

Jamshid Amouzegar  
Iran

Saadoun Hammadi  
Iraq

Abdul-Rahman Al-Ateeqy  
Kuwait

Hassan Kamel  
Qatar

Ahmed Zaki Yamani  
Saudi Arabia

For the Companies:

Strathalmond

George T. Piercy

A. C. DeCrane, Jr.

John E. Kircher

W. P. Tavoulareas

ANNEXE 1

The British Petroleum Company Limited  
Compagnie Française des Pétroles  
Gulf Oil Corporation  
Mobil Oil Corporation  
The Shell Petroleum Company Limited and  
Shell Petroleum N.V.  
Standard Oil Company of California  
Standard Oil Company (New Jersey)  
Texaco Inc.  
Continental Oil Company  
Standard Oil Company (Ohio)  
Hispanica de Petróleos S.A.  
American Independent Oil Company of Iran  
Signal (Iran) Petroleum Company

*Opec Agreements*

ANNEXE 2

<i>Crude</i>	<i>° API</i>	<i>Present Posting \$ pb</i>	<i>1/2 cent pb x Degrees of Gravity under 40°</i>	<i>Adjusted Posted Price * \$ pb</i>
Qatar	40	1.93	0	1.93
Abu Dhabi	39	1.88	.005	1.885
Abu Dhabi Marine	37	1.86	.015	1.875
Qatar Marine	36	1.83	.02	1.85
Basrah	35	1.72	.025	1.745
Arabian Light	34	1.80	.03	1.830
Iran Light	34	1.79	.03	1.820
Iran Heavy	31	1.72	.045	1.765
Kuwait	31	1.68	.045	1.725
Arab Medium	31	1.68	.045	1.725

The crude below API Gravity 30° is not covered by this table.

\* Subject to paragraph 3 (c) (2) (iv).

ANNEXE 3

Short Haul Freight

The following provisions shall apply with respect to the implementation of paragraph 3 (d) of the Agreement to which this Annex 3 is attached.

1. Any major oil company concerned shall pay to each Gulf State (as a supplemental payment) that proportion of a "balancing amount" as such Company's crude production exported from Gulf terminals (including Arabia/Bahrein pipeline) in such Gulf State bear to the total of such Company's crude exports in such period from all Gulf States in the Gulf.
2. The "balancing amount" will be equal to the monetary amount by which the Company's payments to Libya for the period exceed the monetary amount which the Company would have paid to Libya for the period if it had effected the full reduction of premium permitted by its agreement with Libya or if it had effected a reduction in premium equal to 2½ cents/B which is agreed with the Gulf States to be the shorthaul premium, whichever reduction is smaller.
3. "Major Oil Company" for the above purpose means any of Esso, Texaco, SoCal, Gulf, Mobil, BP, Shell and CFP.
4. Illustrative examples of the implementation of the terms of this annex are shown in Exhibit A, attached.

*Selected Documents — 1971*

**EXHIBIT A (attached to Agreement)**

**Illustrative Example of "Balancing Amount"**

	<i>Cents/BBL</i>			
Shorthaul Premium agreed with the Gulf States	21.5	21.5	21.5	21.5
Libyan "Premium" for illustrative purposes:	18.0	21.5	24.0	30.0
Lesser of Under-Reduction of Libyan Freight Premium or 21½ cents/B:				
1. Libyan Premium should be reduced by 25 % but is not	4.5	5.375	6.0	7.5
2. Libyan Premium should be reduced by 50 % but is not	9.0	10.75	12.0	15.0
3. Libyan Premium should be reduced by 100 % but is not	18.0	21.5	21.5	21.5
4. Libyan Premium should be reduced by 100 % but was only reduced to 50 %	9.0	10.75	12.0	15.0
5. Libyan Premium should be reduced by 100 % but was only reduced by 25 %	13.5	16.125	18.0	21.5
To obtain balancing amount:				
(a) Multiply figure given under 1—5 by the total Libyan tax rate on income plus (100 percent minus such rate) applied to the royalty, all as applicable to the producer concerned.				
(b) Multiply resultant dollar/B figure in (a) by the barrels of the major company's crude production exported from Libya.				

